

# **NAVAL POSTGRADUATE SCHOOL**

## **Monterey, California**



## **THESIS**

**SENEGAL: THE ECONOMIC REFORMS AND THE  
INFLUENCE OF THE INFORMAL SECTOR ON THE  
ECONOMIC REFORM PROCESS**

by

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June 2002

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**SENEGAL: THE ECONOMIC REFORMS AND THE INFLUENCE OF THE  
INFORMAL SECTOR ON THE ECONOMIC REFORM PROCESS**

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## ABSTRACT

After a severe economic crisis, the Senegalese government was strongly committed to rebuilding an economy that was close to financial collapse. To restore economic growth and efficiency, Senegal implemented political and economic reforms to address the challenges of the social crises that endangered the nation's stability. In fact, Senegal began to adopt stabilization and structural adjustment policies because of increasing debts and its inability to pay them. With the support of the World Bank and IMF, Senegal planned to solve the economic crisis through various measures such as the Agricultural Policy (NAP) and the New Industrial Policy (NIP). Despite all these efforts, the objectives of such reforms were not reached. In the early 1990s, the rate of economic growth was low and erratic, and poverty and unemployment increased. To restore growth and efficiency, Senegal devalued the CFA Franc (the local currency), and at the same time, several other measures were implemented to improve the economy. This thesis explores the reasons for the failure of the Senegalese economic reform process and proposes some solutions for improving the deployment of the Senegalese economy.

This thesis examines how the informal sector has reacted to the economic reforms. Therefore, policies are proposed in this thesis to promote the informal sector. Facing difficulties, such as increased customs taxes, lack of money to finance banking guarantees or collaterals, the informal sector has relied on “Tontines”, “MGA”, and “Money Transfer Systems” to finance its activities.<sup>1</sup>

Aware of the difficulties that the enterprises faced in the economy, the government has undertaken many economic measures, such as decreasing taxes, and deregulating the economy in order to eliminate fraud, corruption and to promote businesses. Also, this thesis examines indirectly how the Senegalese economic reforms influence the Senegalese military and offers some recommendations to improve the military.

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<sup>1</sup> See Chapter III on these matters.

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## **LIST OF ACRONYMS**

ASER: Senegalese Rural Electrification Company  
BCEAO: Central Bank of West African States  
B.I.C.C: Bonn International Center For Conversion  
BNDS: Senegal National Development Bank  
BSD: Senegal Development Bank  
CEREQ: Research Center for Equipments  
CFA: African French Currency  
CGAP: Consultation Group for Assistance to the Poorest  
CICES : International Center for External Trade  
CRAD: Agricultural Research and Development Center  
CSS: Social Security Office  
DAKAR MARINE: Sheep Maintenance Company  
ECOMOG: Economic Community of West African Monitoring Group  
EFRP: Medium- Term Economic and Financial Recovery Plan  
FIAS: Foreign Investment Advisor Service of the World Bank  
FNR: National Retirement Fund  
FPI: Industrial Promotion Fund  
GAINDE: Customs Computer System  
GDP: Gross Domestic Product  
HAMO: Housing Construction Company  
ICS: Phosphate Company  
ILO: International Labor Organization  
IMF: International Monetary Fund  
LONASE: National Gambling Company  
LPDA: Agricultural Development Policy Letter  
MGA: Mutual Guarantee Association  
MPE: Micro and Small-Scale Enterprises  
MSAD: Tapestry Weaving Company

MONUC: United Nations Mission For the Republic of Congo  
NAP: New Agricultural Policy  
NIP: New Industrial Policy  
OECD: Organization for Economic Cooperation and Development  
ONCAD: National Agriculture Marketing Board  
OCA: Senegal Marketing Board  
OHADA: African Standardized Law Organization  
OMVS: Rehabilitation of the Senegal River Company  
PAES: Higher Education Improvement Project  
PAML: Economic Adjustment Plan in the Medium and Long Term  
PASCO: Structural Adjustment Program for Trade  
PDRG: Program for the Development of the Left Bank of the Senegal River  
PNA: National Provision Pharmacy  
PNAE: National Environment Action Plan  
PNBG: National Plan for Good Governance  
PSAOP: Program for Producers Organization  
PTIP: Public Investment Program  
PVI: Import Inspection Program  
SAPCO: Fitting Company For Hotel and other Leisure Companies  
SAR: Oil Refinery Company  
SENELEC: National Company of Electricity  
SENRE: Insurance Company  
SETI: Railways Company  
SGS: Pre-Shipment Inspection Company  
SICAP: Housing Construction Company  
SODEFITEX: Company for the Development of Textile Fibers  
SODESP: Farming Development Company  
SODEVA: Agricultural Development Company  
SONAGRAINES: National Marketing Board for Seeds  
SODIDA: Dakar Industrial Estate

SONACOS: Refinery Company  
SONADIS: Distribution of Goods Company  
SONAFOR: National Drilling Company  
SONATEL: National Company of Telecommunication  
SONEPI: Industrial Promotion and Research Company  
SOTRAC: Transport Company  
SPHU-Teranga: Hotel Company  
SSPT: National Office of Post and Telecommunication  
TPS: Trade Point Senegal  
UNACOIS: National Union of the Senegalese Traders and Industrials  
UNAMSIL: United Nation Mission for the Republic of Sierra Leone  
UNDP: United Nation Development Program  
UNESCO: United Nation for Education, Science, and Cultural Organization  
UNIDO: United Nation Industrial Development Organization  
UNCTAD: United Nations Conference for Trade and Development  
USAID: United States Aid for International Development  
VAT: Value Added Tax  
WAEMU: West African Economic and Monetary Union  
WB: World Bank  
WHO: World Health Organization  
WTO: World Trade Organization

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# **I. INTRODUCTION**

## **A. BACKGROUND**

Senegal is located in the westernmost part of Africa and faces the Atlantic Ocean. The country shares boundaries with Mauritania to the north, Guinea and Guinea Bissau to the south, and Mali to the southeast. Senegal has a surface area of 196,722 sq km, and its population is approximately 10 million people. The density of the population is 50.8-inh/sq km. The country has a rainy season from June to October and a dry season for the rest of the year. Mainly dependent on agriculture, the Senegalese economy obtains its financial resources from peanuts but also from fisheries, tourism and phosphates.

After obtaining independence in 1960, the government was strongly committed to improving the economy. In the early 1990s, the economy faced a severe crisis, which brought the country close to financial collapse. To restore economic growth and efficiency, Senegal implemented political and economic reforms to address the challenges of the economic and social crises that compromised the nation's stability in the 1980s. In fact, Senegal began to adopt stabilization and structural adjustment policies because of increasing debts and its inability to pay them. With the support of the World Bank and IMF, the three main goals of the adopted policies were

- Attaining macroeconomic balance by bringing national expenditures into line with national income;
- Allocating resources more efficiently;
- Facilitating investment by expanding resources over a longer period of time in order to raise the rate of economic growth and living standards, particularly for the poor.<sup>2</sup>

Senegal planned to attain these goals through various measures such as limiting the public debt, decreasing government spending, reducing the size of the public sector, promoting exports, and implementing domestic market reforms and privatization. Two policies were implemented: the Agricultural Policy (NAP) and the New Industrial Policy (NIP). The NAP reduced the number of rural development agencies as well as farming subsidies while the NIP privatized state-owned businesses and removed protective tariffs. Despite all these efforts, the objectives of such reforms were not reached. In the early

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<sup>2</sup> World Bank, 1996, p. 153.

1990s, the rate of economic growth was low and erratic and poverty and unemployment increased. To restore growth and efficiency, the government devalued the CFA Franc. Simultaneously, several other measures were implemented to improve the economy. The immediate effects of the devaluation were both positive and negative. For example, foreign debt and prices increased but so did exports and tourism. Decreased imports were another effect of the devaluation but especially in broken rice<sup>3</sup> that was widely consumed in the country.

Additionally, these reforms increased the activities of the informal sector. According to the Senegalese Ministry of Trade's report, the informal sector grew 4.3% on average between 1980 and 1991, growing 1.8 times more quickly than the industrial sector.<sup>4</sup> Despite its importance, the informal sector is not very well understood by public agencies, which are unable to evaluate how this sector exactly contributes to the Senegalese economy.

In Senegal, the urban elites compose the formal sector of the economy, the part of the economy that the state knows well. The formal sector, protected by law, is ensured certain rights, but those who work in this sector are obliged to pay taxes and fees to the state. However, in addition to the formal sector, an informal sector that is completely or partially beyond the control of the state exists. People lacking the financial means, education, and technology to compete with the formal sector compose the informal sector. Some of the people in the Senegalese informal sector trade legal and illegal goods, avoid paying rent to authorities on their stalls, and avoid paying customs duties on imported goods and taxes on what they manage to sell.

In the state's view, the informal sector is a threat because it undermines state control and avoids taxes. This sector is often accused of hindering the modernization of the economy. The economic reforms liberalized the economy and reduced state control over the market and, as a result, the informal sector became more inventive and creative. People in the informal sector provide goods at lower prices than in the formal sector. However, customers who purchase goods in these markets accept certain risks, such as

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<sup>3</sup> Broken rice is composed of granulated rice.

<sup>4</sup> Senegalese Ministry of Trade Preparatory Report on the Informal Sector, May 2001.

receiving lower quality goods and services or purchasing goods that are illegally obtained and which are often sold without receipts.<sup>5</sup>

## **B. PURPOSE**

### **1. Objective**

This thesis examines how the informal sector has reacted to economic reform and further examines how these reforms have impacted the military. Recommendations are made for improving the reform process and for generating better results for the Senegalese people.

### **2. Research Questions**

- What were the objectives of the reform process?
- What success and failures are attributable to the reform process?
- How has the informal sector reacted to the economic reform process?
- What impacts the reforms had on the military?
- What can be done to improve the economic reform process?

## **C. SCOPE AND ORGANIZATION**

### **1. Scope**

This thesis focuses on the Senegalese economic reforms started in the early 1980s. The results of these economic reforms are examined, and the impact of the reform process on the informal sector and the military is examined. This research offers recommendations for improving the reform process.

### **2. Organization**

Chapter I gives a background of the topic, examines the purpose of the thesis and describes its scope and organization. The Senegalese economy is examined before and after the reforms began. Therefore, in Chapter II, the origins of the economic crisis are examined through a retrospective analysis of the primary, secondary, and tertiary sector. . Also, the impact of the economic reforms on the military is studied in Chapter II. The military sector is examined, for the first time, to see how these reforms affect the military. In Senegal, military affairs are often left to soldiers or confidentially handled by politicians. The Senegalese military is a professional organization under civilian control,

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<sup>5</sup> Sources: Pedersen, P.O. and D. McCormick. 1999. *African Business Systems in a Globalising World*. *The Journal of Modern African Studies*, 37(1): 109-135. Laguerre, Michel S. 1994. *The Informal City*. Berkeley: University of California Press.

and studying the Senegalese military is worthwhile because the military is affected by the economic reforms just as any other governmental institution is. Also, as consumers, Senegalese soldiers are living the economic crisis. Thereafter, Chapter III examines the impact of the reforms on the informal sector. Chapter IV of this thesis proposes policies for improving the economic reforms. The fifth chapter offers some concluding remarks.

## II. ORIGINS OF THE ECONOMIC CRISIS AND REFORMS

### A. THE PRIMARY SECTOR

The primary sector of Senegal is essentially composed of agriculture, livestock and fishing. The arable land represents 27% of the total area of 196,722 sq km.<sup>6</sup> Agriculture employs 70% of the population and accounts for approximately 19% of the Gross Domestic Product (GDP). In addition to cotton and sugar, groundnuts, which account for 40% of the cultivated land, are the chief cash crop, and the country's main agricultural export.<sup>7</sup> Millet, cassava, sorghum, rice, and corn compose the principal food crops. Since the level of agricultural activity depends on rain, droughts are often a main reason for Senegal's economic instability.

According to official statistics, the GDP decreased from 1971 to 1984 because of a drought. Groundnuts, in the 1960s, were the principal product and represented 78% of all export revenues. Thus groundnuts were the largest single source of government revenues while oil refineries represented 40% of the industrial activity.<sup>8</sup> The government was involved in the primary sector through many rural development agencies such as:

- The Senegalese Development Bank (BSD);
- The Senegal Marketing Board (OCA);
- The Agricultural Research and Development Centers (CRAD);
- The Senegal National Development Bank (BNDS);
- The National Agricultural Marketing Board (ONCAD);
- The Company for the Development of Textile Fibers (SODEFITEX).

The government's involvement in these institutions ensured that the government's policy of introducing new agricultural crops such as cotton, maize and cowpeas was implemented. These new crops were introduced to stop the progressive decline of the groundnut industry caused by a decrease of approximately 25% of the country's trade in groundnuts due to the French participation in the Common Agricultural policy of the

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<sup>6</sup> <http://www.immigration-usa.com/wfb/senegal-geography.html>.

<sup>7</sup> <http://www.worldinformation.com/World/Africa/Senegal/profile.asp?country=221>.

<sup>8</sup> Youm Prosper. 1991. "The Economy since Independence." In Christopher Delgado and Sidi Jammeh, eds, *The Political Economy of Senegal under Adjustment*. New York: Praeger.

European Economic Community.<sup>9</sup> To realize the government's agricultural diversification policy, development agencies distributed credit, seed, subsidized fertilizers, and farm equipment to about 1,700 state cooperatives in villages throughout the country.<sup>10</sup> Government intrusion also occurred in other primary sector activities, such as fishing and phosphate mining, which accounted for 11% and 18% respectively of all exports in 1982.<sup>11</sup>

In the 1980s, the agriculture growth was lower than the growth of the other sub-sectors of the primary sector. For example, the value added in agriculture grew at an average rate of 2.7%, while the value added in stock farming grew at an average rate of 3.1 %.<sup>12</sup> The preponderant contribution of agriculture to the primary sector was relatively stagnant; therefore, agriculture was not dynamic enough to improve economic growth. This failure was due to several reasons, such as:<sup>13</sup>

- The government's involvement in the primary sector through many parastatal organizations. For example, the government provided fertilizers and seeds to the peasants but not in sufficient quantities and they were of poor quality;
- Fertilizers and seeds were given to the peasants on credit, who, in return, were obligated to sell their products to the National Marketing Board (ONCAD);
- When buying the peasant's products, the ONCAD deducted a sum from the price of the seeds and fertilizer. The unintended consequences were that a portion of the peasant's peanut production (80% in 1984) was not sold to the ONCAD but instead drifted from the official market to the parallel markets at full prices;
- Droughts and overpopulation in the peanut basin reduced the total acreage and worsened soil quality, and accelerated deforestation.

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<sup>9</sup> The decline was due to a loss of market share in France, which now gave preferential access to producers elsewhere in Europe.

<sup>10</sup> *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*. World Bank. Oxford University Press. June 1994. Samba Ka and Nicolas van De Walle. "Senegal: Stalled Reform in a Dominant Party System." pp. 296-298. See Anonymous 1986 p. 1460, Barker 1985, Delgado and Jammeh 1991, and Waterbury and Gersovitz 1987.

<sup>11</sup> Samba Ka and Nicolas van De Walle, p. 299.

<sup>12</sup> Francois Boye. "A Retrospective Analysis of the Senegalese Economy." Center for Economic Research on Africa. Available on line at: <http://alpha.montclair.edu/~lebelp/CERAFRM024Boye1990.pdf>.

<sup>13</sup> Francois Boye. 1990, p. 17.



Concerned with the failure in the primary sector, the Senegalese government undertook economic reforms from 1981 onwards. The NAP was adopted and implemented in 1984 with the goal of reducing government involvement in production and marketing activities. As a result, the ONCAD was closed, many other rural parastatal organizations were dissolved, the market for agricultural inputs was liberalized, the subsidy on fertilizers was canceled, and the rural-state agencies were privatized. However, government attempts to reform the primary sector and the prices of some products, such as groundnuts, cotton, and rice, continued. Lobbyists who capitalized on government subsidies for personnel benefit delayed the reform process.

Until 1991, despite the insistence of external aid and lending agencies, the government still resisted accelerating reforms in the primary sector and thus refused to decontrol the price of rice, the nation's staple food, and also refused to abandon the subsidies on fertilizer. However, the report prepared by the Senegalese government in consultation with the staffs of the International Monetary Fund and World Bank (June 4, 1999) stated:

With the goal of improving the assistance provided to the agricultural sector, the government has established a support program for producer organizations (PSAOP)...The agricultural services provided by the public sector will be limited to the following functions: (i) guidance, analysis, and projections in connection with agricultural development policies and programs; (ii) monitoring, coordinating and evaluating the agricultural development actions and policies implemented by public or private sector agents; and (iii) regulation and supervision. These various programs intended to improve the institutional environment and to strengthen the bases of agricultural production, are reinforced by several measures to promote private enterprise in agriculture, in particular by facilitating access to inputs and credit, and securing financing through a land ownership reform that would give investors all the guarantees that a free market can offer.

Despite the government's willingness to reduce its role in the primary sector, from 1961 to 1999 the per capita agricultural production index (base year 1989 to 1991, 3-year average) decreased by almost 50%, falling from 176% to 96%.<sup>14</sup> Also, the government's disengagement from the primary sector is not yet complete. In fact, the government is still involved in the agriculture market through SONAGRAINES, a

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<sup>14</sup> FAO, Statistical Data Basis, 2000 ([http://: www.fao.org](http://www.fao.org)).

marketing board that sells seeds, fertilizers, and farm equipments to peasants and then buys their products. The poor performance of the sector is mostly due to the government's unwillingness to disengage itself fully from the primary sector and the lack of a strategic policy that allows the private sector to become involved in the primary sector gradually. Most of the adjustment programs in the primary sector were beset by setbacks from external shocks and delays in policy implementation and policy reversals. Under these conditions, the adjustment programs could not generate accelerated growth because of the lack of external competitiveness of the economy.

## **B. THE SECONDARY SECTOR**

The secondary sector in Senegal is mainly composed of food processing, textiles and chemicals businesses and is dominated by import-substitution light industries owned by French people and, to a certain extent, by Lebanese businesses. The only heavy export industries are an oil refinery, a sulphuric/phosphoric acid plant, and a fertilizer complex (Industries Chimiques du Senegal). The industrial heavy secondary sector is inherently tied to the primary sector from which it receives most of its raw materials; therefore, climatic conditions can harm the industrial performance just as they harm the primary sector.

During the 1980s, in addition to the climatic problems in the primary sector, many other elements, such as the high cost of electricity, water, telephone, and transportation made difficult for the industries to compete. The New Industrial Policy (NPI) was promulgated to privatize the water, the electricity, and the telecommunication companies in order to decrease the prices of their products. Growth of the industrial sector depends to a large extent on the response of domestic and foreign investors to the reduction of production costs due to privatization.

Also, the New Industrial Policy recommended liberalizing trade policies in order to eliminate a significant amount of administrative inflexibility. In doing so, all quantitative restrictions on imports and exports were ended, special tariffs for specific industries were removed, and import and export licenses procedures were canceled.

The government implemented other measures to assist the industrial sector, which faced competition due to the openness of the market, and to help these enterprises attain

future growth. For example the Industrial Promotion Fund (FPI) was created to help any enterprises that were willing to restructure. Also a new investment code was established to encourage and to promote businesses in the sector. Finally, the labor market was liberalized, and the Export Promotion Fund (FPE) to subsidize enterprises willing to sell part of their production abroad was founded.

The goal of the NPI was to open up the economy to the international markets, to inform the capitalists that the government would no longer take over non-competitive businesses that were failing, and also to declare that the common law in fiscal matters would be the standard to which investors would be held (Cf. Senegalese law 87-25).<sup>15</sup>

The inability of domestic firms to compete resulted from reductions in customs duties, which enabled foreign products to be more price competitive than similar locally manufactured products. In fact, tariff protection was reduced in 1986 and in 1988. Therefore, the average protection rate declined from 165% in 1985 to 90% in mid-1988.<sup>16</sup> In 1991, the increasing reliance of the government on exceptional revenue measures, such as the heavy taxation of petroleum imports, increased production costs such as energy, and caused firms to leave, to cease operation or to join the informal economy.

The NPI was not a total success because of delays and reversals in implementing the reforms. In fact, the cost of production was not reduced because privatization of water, telephone, and energy was not implemented and protective measures that were removed were reintroduced. Moreover, tariff protection was reduced twice, first in 1986 and again in 1988. As a result, the average effective protection declined from 165% in 1985 to 90% in mid-1988, because the government, prodded by the need for revenues and the lobbying of domestic businesses unable to compete in the new environment, reintroduced protection measures. Then, by August 1990 the average protection rate had

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<sup>15</sup> See Francois Boye. 1990, p. 27.

<sup>16</sup> *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*. World Bank. Oxford University Press. June 1994. Samba Ka and Nicolas van De Walle. Senegal: "Stalled Reform in a Dominant Party System," p. 320.

increased and reached 98%.<sup>17</sup> Part of the value-added of industry<sup>18</sup> transferred abroad by foreign employees and shareholders limited ability of the secondary sector to reduce the current account deficit completely. Had this money stayed in Senegal, the deficit would have been 50% lower before 1980 and at least 25% lower after 1980.<sup>19</sup> In addition, the government is still involved in many enterprises as a shareholder even though development partners insist that the government completely withdraw from commercial activities. Today, the Senegalese government still holds a little bit less than 50% of the shares in the electricity company (SENELEC), more than 50% in the phosphate company (ICS), more than 50% in the oil refinery (SONACOS), and less than 50% in the water company (SDE) for which it owns the supply infrastructures. During 1997, electric power outages lasted a total of 356 hours, whereas in part of 1998, the total duration of electric power outages was 436 hours.<sup>20</sup> This is a tremendous economic loss that shows how government involvement in business can be detrimental to a country. Also, special governmental advantages accorded to public enterprises produced an environment that was unfriendly to private enterprises and made competition almost impossible.

### **C. THE TERTIARY SECTOR**

The tertiary sector in Senegal includes services produced and rendered by government agencies and by private enterprises to individual consumers or enterprises in the primary and secondary sectors. Government involvement in activities such as trade, transportation, electricity and water distribution, tourism, and many other tertiary activities curtailed the pace of reforms in the sector. Therefore, to privatize many activities in this sector, structurally reforming government agencies inherited from the colonial era and adapting them to the new economic environment was necessary. In fact, because it worried about putting government workers out of jobs, the government was unwilling to reduce the number of public sector employees. As a result, wages for the

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<sup>17</sup> *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*. World Bank. Oxford University Press. June 1994. Samba Ka and Nicolas Van De Walle. Senegal: "Stalled Reform in a Dominant Party System," p. 320.

<sup>18</sup> Part of the salaries of foreign employees and the revenues of foreign shareholders is not reinvested in the economy, and represents money out of the economy. This money impacts the current account of the country negatively.

<sup>19</sup> See Francois Boye. 1990, p. 28.

<sup>20</sup> Foreign Investment Adviser Service (FIAS). "Senegal: *Le Parcours de l'Investisseur (Investor's Path)*." March 1999, p. 65.

public sector accounted for 60% of government expenditures in 1980, and the number of employees in government agencies actually increased from about 10,000 in 1960 to 59,300 in 1980 (Berg 1990, p. 4; World Bank Staff Estimates). Although the reform was supposed to decrease the number of public sector employees to reduce the size of the public administration, it did not. The table below shows the number of public sector employees and the cost of their salaries from 1981 to 1991.<sup>21</sup>

Table 1. The Impact of Civil Service Reform in Senegal, 1981-90.

<b>Fiscal Year</b>	<b>Total Employed in the Civil Service</b>	<b>Wage Bill (Billions of Cfa)</b>	<b>Wage Bill as a Percentage of Current Expenditure*</b>	<b>Wage Bill as a Percentage of Total Expenditure*</b>	<b>Wage Bill as a Percent of GDP</b>
1981/1982	63,011	83.3	50.4	39.2	11.0
1982/1983	66,310	92.7	49.7	36.5	10.4
1983/1984	67,718	100.4	48.9	40.5	10.3
1984/1985	67,034	106.6	49.1	41.9	9.7
1985/1986	68,843	111.8	50.7	42.0	9.2
1986/1987	68,131	119.8	51.5	41.9	8.9
1987/1988	67,100	122.3	50.0	42.4	8.5
1988/1989	66,549	125.1	50.5	41.0	8.5
1989/1990	63,641	126.8	49.1	38.4	8.1
1990/1991	66,549	125.1	55.8	43.6	8.1

From: World Bank 1990. Estimates of World Bank Staff

From 1981 to 1990, the reform process removed 497 “ghost” employees, allowed 747 personnel to retire early and permitted 1,283 employees to voluntarily leave the public sector.<sup>22</sup> As a result, government wages decreased from 11% of GDP to 8.1%. Although the objective was to reach a wage bill of approximately 10 billion Cfa per month, much more effort was needed to decrease the number of government employees

<sup>21</sup> Voting for Reforms: *Democracy, Political Liberalization and Economic Adjustment*. World Bank. Oxford University Press. June 1994, pp. 297-298, 321.

<sup>22</sup> World Bank Policy Research Report on “Adjustment in Africa.” 1994.

\*Current expenses=Running expenses

\*Total expenditure= Running expenditure + Equipment expenditure

in order to allow the private sector to become more involved in the economy. In addition to the decrease of government employees, Senegal liquidated, privatized, and rehabilitated approximately eighty-five of the public enterprises to improve the economy (See Appendix C).

Another important problem to overcome was the loss of time and money engendered by the red tape of the Senegalese central bureaucracy. In fact, the cost to engage in business was high in terms of time and money as was the cost to import or export goods because of the lengthy and complex public procedures that needed to be fulfilled. For example, to establish a formal business, one had to deal with twelve different administrative documents. These documents then had to be submitted to thirteen different government agencies, and the time taken for these public offices to approve them was three to twelve months.<sup>23</sup> As for the importation of goods from abroad, the procedures through public agencies, such as sanitary inspection, board of customs, and so on, could consume at least one to two weeks. The analysis that follows illustrates how red tape consumed tremendous amounts of time and money.<sup>24</sup> In fact, in Senegal, the importation and exportation of goods were rife with administrative formalities in order to protect domestic firms from outside competition (See Appendix A). Having the required documentation, which improved compliance with legal obligations, was sometimes mandatory for any transaction. Desoto noted:

A law is “good” if it guarantees and promotes economic efficiency and “bad” if it impedes or disrupts it. The unnecessary costs of formality derive fundamentally from a bad law; the costs of informality result from the absence of a good law (Desoto, p. 132).

Examining import and export operations involves a copious amount of red tape: manual processing by different parties who issue joint documents, the physical transmission of documents to the customs office, the manual settlement of duties, and many specific and petty formalities that require much time for custom offices to process.

To alleviate these problems, the Senegalese government, with the support of the United Nations Conference for Trade and Development (UNCTAD), funded and created

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<sup>23</sup> Appendix B shows the numerous government agencies involved in establishing a legal business.

<sup>24</sup> Trade Point. Report on “ORBUS 2000: Electronic Duty Clearance for Exportation and Importation of Goods.” July 1999.

the Trade Point Senegal (TPS) in order to simplify commercial transactions. The private sector was also solicited to contribute financially to establish the TPS. The Trade Point's objective was to group most actors in international trade, including customs, insurance companies, freight forwarders, banks and other government agencies to concentrate all transactions needed for importing and exporting operations in one place. This should save time and money related to obtaining documents needed for importation and exportation operations. To achieve this end, the Trade Point created a computer network to facilitate importing and exporting to increase Senegal's economic efficiency.

The primary objectives of the TPS network were to reduce the time and costs of importing and exporting goods in Senegal. The specific objectives of the system were to decrease red tape, to improve procedures through new computer technology, to decrease data entry time, to decrease the time needed to transmit documents and to decrease the time for clearing customs by improving administrative procedures. Other specific objectives were to improve the methods and work conditions of the parties involved, to bring the different parties closer on foreign trade and to reduce the time for collecting documentation, and, finally, to accelerate payment.

Unfortunately, so far, the TPS has not fully fulfilled all its missions and objectives. In fact, the intentions that sustain the TPS missions and objectives are wonderful, but the TPS is rife with roadblocks that inhibit its efficiency. The spearheading of TPS by a government central bureaucracy, the unavailability of computers in many businesses, and the lack of knowledge to use them seriously obstruct the TPS. The majority of people in informal business do not have a "computer culture." The TPS should be an agency of and for the private sector. The TPS must possess an operational computer network between government agencies involved in the importation and exportation operations process and the businessmen who need to operate through an electronic network. The Senegalese government must equip its agencies with computers and personnel in order to facilitate and speed up the pace of business operations. The Senegalese businessmen must be free to use or to not use the services of the TPS according to how much the businesses value their time when processing their import and

export activities.<sup>25</sup> Those who cannot afford to process their activities through the TPS can use the “Cyber-cafes.”<sup>26</sup>

#### **D. SENEGALESE ECONOMIC REFORMS AND THE MILITARY**

The Senegalese military inherited the French military organization and traditions. Even though the country achieved its independence, the French military still assists the Senegalese military in different areas. Also, the Senegalese military receives various kinds of assistance from the U.S., Germany, and many other donors that cooperate with the country.

The Senegalese military fulfills many internal and international economic and social missions. As far as internal missions are concerned, the Senegalese military is highly involved in public health. In fact, the Senegalese government assigns the military many duties in this sector, but mainly in the countryside, which the private health sector eschews because it is not profitable. Most of the people in these localities do not have the spending power to afford medical care.

The Senegalese military is also present in insecure zones, such as Casamance, where militant separatists have been waging a guerilla war against the government for more than twenty years. Also, the Senegalese military is involved in public works, building or repairing roads and bridges. Moreover, Senegalese soldiers are involved in coast guard missions.

As for international missions, the Senegalese military has participated in many international and regional peacekeeping missions. The UN frequently employs the Senegalese military. In fact, the Senegalese military is present in many UN peacekeeping missions, such as MONUC in the Congo and UNAMSIL in Sierra Leone.

Other missions have been deployed to Central Africa in 1997, to Rwanda in 1994, and to Liberia in 1991 to participate in the ECOMOG peacekeeping effort.

The Senegalese military is not involved in political affairs; this has contributed to the political stability of the country since its independence. The military is well trained and disciplined (US Department of State, Bureau of African Affairs Report. January

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<sup>25</sup> Harvey S. Rosen. *Public Finance*, 6<sup>th</sup> Edition, p. 234.

<sup>26</sup> “Cyber-cafes” are private shops that sell computer services.



2002). Also, the army is professional and under civilian control. The military of today in Senegal is one of those rare African militaries never having led a “coup d’ état.” In many African countries, economic hardships have led the public to withdraw support from a government that can be taken over by the military. In Senegal, the military has always been on the sidelines concerning the many social uprisings against inflation, unemployment or other effects of the economic reforms, although the decreasing military budget and military personnel have affected it.

The structural adjustment and the voluntary departure program to decrease the size of the administration personnel did not affect the military. It maintained its traditional structures when the entire governmental administration was restructured to reduce public expenditures. The table below shows the changes in military expenditures and personnel during the reforms:

Table 2. Senegalese Military Expenditure in Constant US\$ Million and Personnel in 1,000s (Paramilitary troops, civilians employed by armed forces, and opposition forces are excluded).

<b>YEAR</b>	<b>Military Expenditure</b>	<b>Share of GDP</b>	<b>Military Personnel</b>
1989	105.7	NA	15.4
1990	109.2	NA	18.4
1991	107.1	1.9	18.4
1992	154.7	1.8	18.4
1993	119.7	2.2	18.4
1994	90.3	1.8	14.4
1995	79.8	1.8	13.3
1996	77	1.7	13.3
1997	74.9	1.6	13.3
1998	70	1.5	11.0
1999	70	1.5	11.0

Data on share of GDP are from SIPRI Yearbook 2001. Military Expenditure and Arms Production. The other data on military expenditure and personnel are from Conversion Survey 2001 edited by the B.I.C.C  
NA = Not available

A gradual decrease of Senegalese military expenditures as a share of the GDP can be seen in the table above. In essence, the military has been affected by budget cuts just as all other government agencies have been. The number of military personnel has been decreasing from 1989 to 1999. The increase in the number of personnel military from 1989 to 1993 were due to fighting the rebellion in Casamance that caused the government to raise the number of military conscripts.

From 1986 to 1996, the number of military personnel has not been disclosed and important changes have not occurred since the budget has been cut.

Military expenditures affect economic growth negatively if they are essentially used for internal or external conflict issues. The findings, which emerge from Dunne's summary of 54 studies, show a negative relationship between military expenditures and economic growth in Africa in various areas (Dunne. 1996). Also, reductions in military expenditures contribute to the prevention of conflicts in and between countries. Also, the money saved from reductions of military expenditures can be use for public developing investments. If diminishing the military means for war solves the conflicts issues, the military can be downsized and a disciplined and high-quality defense force created.<sup>27</sup> This idea is examined further in Chapter IV, showing how it applies to the Senegalese military.

#### **E. MACROECONOMIC RESULTS AND ACCELERATION OF THE REFORM PROCESS**

During the 1980s and the 1990s, the objective to fix the economy was not reached. In fact, the economic crisis persisted and the GDP growth was erratic in the 1990s (see table below). The reform measures, such as the decrease in the size of the administration, were only slightly implemented.

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<sup>27</sup> Nadir A. L. Mohammed. MNSD, World Bank, Washington DC. 1999, pp. 9 and 13.

Table 3. Senegal GDP Growth (Real Terms).

Year	GDP
1994	2.9
1995	4.8
1996	5.7
1997	5.2
1998	5.3
1999	6.5
2000	6

From: IMF. Senegal: Structural Adjustment Facility 1998 to 2000.

The economic crisis persisted despite the reforms implemented, such as the Short-Term Stabilization Plan in December 1979, the Medium-Term Economic and Financial Recovery Plan (EFRP), which occurred from 1980 to 1984, and the Economic Adjustment Plan in the Medium and Long Term (PAML). The crisis also persisted despite the support of external aid and lending agencies to fix the economy. In fact, the budget deficit remained high between 1980 and 1983 (7 to 12 percent of GDP). For the same period, the national current account showed a deficit (more than 20% at one point). From 1983 to 1985, inflation was 11% per year and growth in the real GDP was negative.<sup>28</sup>

The IMF discontinued the extended fund facility credit in January 1981 and replaced it with one-year standby agreements. As for the World Bank, it canceled the second part of its first structural adjustment loan in 1983 because of noncompliance of the Senegalese government with the agreements to restructure the economy.<sup>29</sup> The Senegalese government argued that part of the economic failure was due to the 1980 to 1981 drought, which caused a poor groundnut crop and increased food imports. Nevertheless, the IMF and the World Bank restricted their support of the country. In

<sup>28</sup> *The Political Economy of Senegal under Structural Adjustment*. Christopher L. Delgado and Sidi Jammeh. 1991. pp. 10-11. See Appendix D.

<sup>29</sup> *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*. World Bank. Oxford University Press June 1994. pp. 309- 310.

order to obtain such benefits from economic reforms, the country relied on other financial sources such as aid from other donors. However, aid management failed because of the weakness of the country's institutions. This has been a usual occurrence in many African countries that resisted economic reforms programs to which they reluctantly agreed. At times, these nations influenced the nature of those programs to take advantage of their aid patrons or played different aid agencies against each other (Carol Lancaster. 1999, p. 35).

When the EFRP was abandoned and replaced by the PAML, the current account deficit decreased from 20% to 10%, and the GDP deflator, as a measure of inflation, grew only by 2.5% from 1987 to 1988,<sup>30</sup> but it must be recognized that these results were made possible by external aid and lending agencies, and debt forgiveness and rescheduling. In addition, when the PAML was implemented, the Senegalese currency was overvalued. The Senegalese currency (CFA franc) was pegged to the French franc at the rate of 50:1 before January 1994. After the CFA franc was devalued, it was pegged to the French franc at the rate of 100:1. The high level of exchange rate variability and the high level of overvaluation of the currency hurt Senegal's economic performance, thus making the PAML look ineffective. In fact, the devaluations of the French franc relative to other currencies occurred on many occasions without a change in the rate between the French franc and the Franc Cfa. In January 1994, the devaluation of the Franc Cfa and the large range of measures through the Private Sector Adjustment and Competitiveness Project (PASCO) were undertaken to reinforce the PAML.<sup>31</sup>

The informal sector grew and sought a way to survive under an economic climate of government hesitations and struggles against the World Bank and the IMF's reforms of the economy. Also, the military was affected by this climate through limited or decreased budgets, limited or decreased personnel, and limited or decreased materiel to operate and fulfill its missions.

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<sup>30</sup> *The Political Economy of Senegal under Structural Adjustment*. Christopher L. Delgado and Sidi Jammeh. 1991. pp. 10-11.

<sup>31</sup> See Appendix C.

### **III. INFLUENCE OF THE ECONOMIC REFORMS ON THE INFORMAL SECTOR**

#### **A. THE CHARACTERISTICS OF THE INFORMAL SECTOR**

Severe drought, depressed farm prices and the southern advance of the desert accelerated the movement of people from agricultural occupations to the urban informal sector. An additional factor fueling the growth of the informal sector has been the political and economic reforms implemented in many West African countries over the last ten years. Economic liberalization coupled with severe poverty, has contributed to the emergence of subsistent businesses catering to the survival needs of the population. Skilled young people who cannot find jobs at the end of their educational career often turn to the informal sector. Consequently, the informal sector has changed because of addition of educated people.

In Senegal, a few large French-owned import-export firms covering all aspects of trade including retailing dominate the formal sector. Existing alongside these companies are extremely competitive small-scale traders specializing in the wholesale and retail distribution of fabrics and consumer goods. A limited number of larger retail stores deal in mostly imported goods. In the past, Lebanese merchants were the middlemen between French trading companies and the local population. Now, Senegalese merchants selling popular consumer goods are gradually replacing the Lebanese. By contrast, the informal sector, expanding dynamically, employs an important part of the workforce of the country. The informal sector is mainly involved in making household furniture (lamps, beds, cabinets and desks), making kitchenware (stoves, pans and containers), repairing watches, radios, televisions and others electronic goods, cooking, and operating restaurants, making clothes, shoes and accessories, changing and lending money, transporting goods and people, and so on.<sup>32</sup>

#### **1. Comparing the Informal Sector with the Formal Sector**

The following chart compares the characteristics of the informal sector with those of the formal sector:

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<sup>32</sup> Fluitman, 1989; King, 1977, Portes, et. al., 1989.

Table 4. Comparison of the Informal Sector with the Formal Sector.

<b>Characteristics</b>	<b>Formal Sector</b>	<b>Informal Sector</b>
Entry Barriers	High	Low
Technology	Capital Intensive	Labor Intensive
Management	Bureaucratic	Family base
Capital	High	Scarce
Work Hours	Regular	Irregular
Wages Labor	Normal	Low
Inventories	Large	Small
Financial Services	Banks	Personal, Informal
Fixed Cost	Large	Negligible
Customers Relations	Impersonal	Personal
Government Subsidy	Often Large	None
Markets	Often Export	Rarely Export

From: Webster, Filder, 1996, p. 6.

Most people enter the informal sector as a means of surviving. This survivability, being sensitive to changing market demand and product types, depends on skills and strategies that consist of linking buyers and sellers and producers, locating market niches in seemingly over-crowded industries, finding sources of capital, obtaining new equipment, knowing where to locate the business or production facility, and knowing how to establish a small business.

The informal sector encompasses many economic activities that are usually overlooked in economic statistics because businesses in the sector operate in small family-based units and are established, owned and operated by one or a few individuals. Businesses are started and maintained with little capital and are unable to obtain formal credit. Units that operate in the informal sector are ill equipped, have little infrastructure, and are very labor-intensive. Another fact is that businesses in this sector are either ignored or tolerated by the government. Goods and services made and offered by the informal sector are generally low quality relatively than those offered by the formal

sector.<sup>33</sup> Nevertheless, the informal sector still contributes significantly and positively to the Senegalese economy, as shown in the table below.

Table 5. Contributions of the Formal and Informal Sector to GDP (in Percentage).

	1982	1984	1986	1990
Primary Sector*	27.5	22	26	20
Secondary Formal Sector	13.1	16.2	18.3	13.3
Secondary Informal Sector	3.5	3.8	3.7	7.8
Total Secondary Sector	16.6	20	22	21.1
Tertiary Formal Sector	28.5	29	24.3	24.9
Tertiary Informal Sector	27.1	29	27.4	37.5
Total Tertiary Sector	55.6	58	51.7	62.4
Total Formal Sector	69.1	67.2	68.6	58.2
Total Informal Sector	30.6	32.8	31.1	45.3

From: Ministry of Economy and Finance, Direction of Statistics/Elaboration: International Labor Office, Different Years. *Le Senegal à la Veille du Troisième Millenaire*, p. 325.

According to the table above, between 1986 and 1990, the informal sector significantly increased its contribution to the GDP, rising from 31.3% to 45.3%. Therefore, the formal sector and informal sector are highly and indisputably interconnected. The informal sector is a great consumer of formal sector products and an important channel of trade for the formal sector (Patrice Dauserau, Andre Marteus, and Herman Schnab L. 1996). Yet because of the interconnection between the formal and the informal sectors, the informal sector's smuggling activities can influence the formal sector. In fact, if the informal sector is engaged in smuggling, the formal sector goods are

<sup>33</sup> Fluitman, 1989; King, 1977; Muskin, 1997; Portes, et. al., 1989; Webster & Filder, 1996.

\* The primary sector is included in the formal sector because only the urban informal sector is taken into account in the table.

left unsold. Ironically, the consumers benefit from smuggled products, because of their low prices and high quality. Moreover, these smuggled products are incentives for the local enterprises to improve their products. On one hand, it is true that smuggling can decrease government tax revenues. On the other hand, smuggling can help improve the economy by pushing the local enterprises to produce similar smuggled goods to raise the quality and to lower the price of their products in order to maintain or increase their market share. This improves the economy in general and can be more advantageous for the government.

Clearly, the informal sector is not only important to the Senegalese economy, but has also become an inherent and ubiquitous element of the economy. Today it accounts for a very significant proportion of the Senegalese GDP. The informal sector, by producing goods, creating employment, and reducing poverty politically stabilizes many developing countries, such as Senegal.

## **2. Advantages of the Informal Sector**

Advantages of the informal sector are numerous and varied when compared to the formal sector. In fact, domestic products are easily available because the goods are produced near the small-scale businesses. Due to the small quantities of needed products, businesses can obtain their daily supply and avoid accumulating inventories. Moreover, since the informal sectors are close to customers, charges for distribution are eliminated or reduced. Due to the proximity of their supplies, customers are informed daily about their orders and can make quick modifications if necessary. Another advantage is that small-scale businesses are more flexible than large enterprises due to their size, their investments and the mobility of their workforce. Small-scale businesses adapt very quickly to changes in the market and to constraints in the environment. They can hire and lay off employees easily, develop or diminish their production, and supply new products or services. Also, due to the difficulties of obtaining credit from the banking system, the informal sector turns to micro-finance for its equipment.

According to Hernando De Soto, one of the strengths of the informal sector is itinerant vending. In fact, itinerant vendors have no fixed location. They roam the entire day when operating. Their income depends entirely on their ingenuity as they move about in search of customers, since it is highly unlikely that customers will search for them.



While roaming in search of customers, they observe what goods are being sold. They see other, apparently more prosperous vendors working from carts in the same location each day. Various suppliers offer the itinerant vendors goods at different prices and on different terms. The vendors learn from more experienced friends and relatives and swap experiences with others who are also beginning. In so doing, they discover that the street is a school where people learn what goods are needed and the value attached to this need. Over time, they acquire more business savvy. Street vendors begin to establish routes for their daily itinerary. At the same time, they replace small carrying cases they use for their wares with a cart giving them more mobility, and a larger scale of operations. By repeating the same routes over and over again, vendors begin to identify with their customers and with other vendors operating near that circuit. This gradual process of identification generates a reputation, which earns the vendor not only the trust of customers but also credit from suppliers.<sup>34</sup>

In Senegal, while most people who are involved in the informal sector have low incomes, many informal entrepreneurs have relatively high incomes. Informal enterprises accomplish many of the same functions as the formal sector enterprises, but generally on a smaller scale. They are involved in selling, distributing and maintaining goods produced in the formal sector. In the informal sector, the upper echelons are composed of relatively successful micro-entrepreneurs, and of the poor who struggle to survive at the bottom tiers of the self-employed. The first group still needs “modern” skills, such as business management, accounting, and technical skills to succeed. These upper echelons have unionized to protect the sector against the harassment of the state and the formal sector. Generally united in an organization called the National Union of the Traders and Industrials of Senegal (UNACOIS), this first group influences the policies and the business regulations for their interests. While implementing the reforms, the UNACOIS played an important role in supporting many economic reforms that were in their favor, such as ending price controls, eliminating prior authorization requirements for importing rice, textiles, and many other goods, meanwhile trying to undermine reforms that were not to their advantage, such as the devaluation of the Franc Cfa, which increased the prices of imported goods.

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<sup>34</sup>Hernando De Soto, 1989, p. 63.

## **B. THE INFORMAL SECTOR: UNEMPLOYMENT AND POVERTY**

### **1. Unemployment Issues**

Structural adjustment and economic liberalization policies have induced social and economic changes in Senegal. In examining the outcomes of these policies, scholars disagree as to what effects are caused by the policies and what effects are not. Although the government established an agricultural development bank (la Caisse Nationale de Cr dit), farmers could not afford unsubsidized fertilizer. This caused low productivity. Proceeding further in their disengagement from the agricultural sector, the rural banks and cooperatives began to close as well, resulting in credit and equipment scarcity that left the farmers “empty-handed” (Gellar, 1995:73,76; Knight, 1994:67-80; Weissman, 1990: 1682).

The government’s focus on export agriculture decreased the rate of subsistence agriculture in favor of cash crops, such as peanut and export crops, which included rice. Farmers had no choice but to sell whatever they had to offer at whatever price they could get. Thus, the farmers’ spending power decreased. This situation collapsed social and economic networks and increased migration to the urban areas, especially by the youth from 15 to 30 years of age (Knight 1994: 51-66). Obviously, many of these people, who cannot all be employed by the formal industry or the government, joined the informal sector. The following table shows the labor market segmentation in African economies.

As a matter of fact, although the subsidy for fertilizer was curtailed, the Senegalese government still intervened in the market crops through SONAGRAINES, which did not allow the farmers to obtain the best price on these agricultural supplies. In addition, the government, in exchange for providing seeds and other agricultural supplies, then appropriated some of the farmers’ revenues. Unfortunately, this government intervention did not allow the peasants to take advantage of a free agricultural market by selling their product at profitable prices. This government intervention and many other factors, such as drought and a lack of technology, caused a decreased the per capita agricultural production index by almost 50% from 1961 to 1999.

Table 6. Labor Market Segmentation in African Economies.

	Urban	Rural
Sheltered Employment	<ul style="list-style-type: none"> <li>• Multinational Corporations</li> <li>• Sub-set of Locally Owned firms</li> </ul>	<ul style="list-style-type: none"> <li>• Plantations</li> <li>• Mines</li> <li>• Large Construction Project</li> </ul>
Competitive Employment	<ul style="list-style-type: none"> <li>• Remainder of Formal Sector Firms</li> <li>• Government Employment</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial Farmers</li> <li>• Formal Sector Firms</li> <li>• Government Employment</li> </ul>
Informal Activities	<ul style="list-style-type: none"> <li>• Micro-enterprises in Informal Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Peasant farmers</li> <li>• Micro-enterprises in informal activities</li> </ul>

From: Fidelis Ezeala-Harrison and Senyo B-S-K. Adjibolosoo. *Perspectives on Economic Development in Africa*, 1994. p. 65.

Owing to this decrease in productivity, people began migrating into the cities looking for better wages. This migration aggravated the level of unemployment in the cities. In fact, in Dakar, the rate of unemployment was estimated at 24.4% in 1992 (Kante et al. 1994). The unemployment rate was due not only to the rural crisis, but also to the crisis in the industrial and public sectors. The average annual growth rate of the manufacturing value added was -1% in the 1970s and -0.8% in the 1990s (UNIDO, 1999).<sup>35</sup> Moreover, in 50% of the main manufacturing branches the growth rate of employment was negative (UNIDO, 1999).

Many enterprises could not survive the external competition. Hit especially hard by rising unemployment with cutbacks in health and education, parents were less able to support their children. This situation has led to the growing tragedy of street children (Diouf-Camara, 1996; Weisman, 1990: 1628). Again, laying off employees increased the number of people who entered the informal sector to survive. The informal sector employed more than 50% of the active population of the Sub-Sahara African countries

<sup>35</sup> UNIDO Databases, Country Statistics Senegal, New York 1999. Available at: <http://www.unido.org>

and was growing at the rate of 6.7% annually.<sup>36</sup> According to other surveys, the informal sector is an important creator of jobs and an incubator of small and medium-size enterprises. Therefore, the sector is, in essence, a kind of safety net, which absorbs the shock of periodic economic expansion and contraction by absorbing excess labor and providing additional income. This is a good reason for the government to avoid implementing policy that can destroy the informal sector.

In Senegal, the informal sector and the state are the two main providers of jobs and income. In 1991, the informal sector accounted for 58.7% of the working urban population.<sup>37</sup> However, while the informal sector creates many jobs, these jobs, compared to those in the formal sector, are of low quality for employment. The following data indicating the importance of the Senegalese informal sector in the economy:

- Share of GDP: 12% in 1998
- Production of goods: 193.4 billion (CFA)
- Trade revenues: 1936.13 billion (CFA) in 1996

The development of the informal sector was a response to the economic crisis and the macro-economic adjustment. Those individuals who lost their income or who suffered a drop in income clearly contributed to the growth of the informal sector, since people sought new jobs in that sector and reduced their consumption habits. Subsequently, the demand for less expensive goods and services from the informal sector has increased.

Regarding the importance of the movement of people toward the informal sector, the Senegalese head of state at the traditional labor festivities in 1996 in his address to the trade union and employer organizations stated that the challenge was to extend social protection to the informal sector. Of course, the objective was not to impose the rules governing the structured sector, but rather to adopt rules applicable to the specific nature and aspirations of those who operated in the informal sector. For example, the idea of introducing social security to the informal sector came from workers forced from the formal sector into the informal sector as the result of layoffs and business closures, mainly in the wake of structural adjustment programs. According to a survey of the

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<sup>36</sup> Fluitman, F. (Ed.). (1989). "Training for Work in the Informal Sector." Geneva: International Labor Organization.

<sup>37</sup> Senegalese Ministry of Trade Preparatory Report on the Informal Sector, May 2001.

international labor organizations in the sector, only 14% of the working population possessed social security or other benefits. To interest the sector in securing benefits for its workers, a workshop was held with organizations from the informal sector participating. Representatives of the Ministry of Labor and Employment, the Social Security Fund (CSS), which is a joint body, composed of workers and employer representatives, and the Senegalese old-age pension insurance institution, which is also a joint body, attended this workshop. As a result of this workshop, many benefits were proposed for the informal sector, such as:

- Prenatal allowances;
- Maternity allowances;
- Family allowances;
- Coverage of industrial accidents and occupational diseases;
- Coverage of medical and surgical care pharmaceutical and incidental expenses, hospital costs;
- Annuities paid to the eligible parties of victims in the event of a fatal accident.

Yet according to the international labor organization (ILO), the social security fund for the Dakar region has only registered 1,000 workers, mainly crafts people. The efforts were not successful because the informal sector feared being identified and controlled by the government. Another reason for the failure was that the funding of these benefits would have been secured partly or totally from taxes on employees of the informal sector; informal sector employers perceived this as a government trap or a ploy because the cost of receiving these benefits seemed too high relative to the benefits.

## **2. Poverty Issues**

Senegalese lower and middle classes did not benefit from the economic reforms. In fact, the majority of the population felt largely excluded from the benefits of economic growth. The proportion of poor households in Senegal was 58% in 1995, much higher than the average in other African countries, which was 44%. Successive positive real growth did not compensate for the sacrifices the people made.

Poverty is still very real and can be explained by inequalities in the distribution of national income. Those with the highest income, comprising 20% of the population receive 50% of the national income, which is 17 times greater than the income received

by the poorest 20%.<sup>38</sup> A study by Mr. Guy Pfeffermann of the World Bank shows that the beneficiaries of social spending in the developing countries are not the poor. In addition, in most developing countries, governments have little idea of who their poor are. Not only is the concept of poverty hard to define, but also most of the governments in developing countries do not recognize the impoverished because, to a large extent, they are not in contact with them. In developing countries, the average income per capita was estimated to be \$560 in 1980. In 1981 it was \$450. Behind such numbers lies human wretchedness on a dreadful scale.<sup>39</sup>

Economic reforms are intended to foster GDP per capita growth. This has been proven in many countries, and there is every reason to believe that it has helped the poor, based on the strong links between growth and poverty reduction (World Bank 1990). However, in many adjusting African countries, implementing policy has been very sporadic, and growth has not shown much, if any, recovery.<sup>40</sup> This did not allow the reforms to reach the objectives of reducing poverty as intended. Most people interpreted this situation as a failure of the economic reforms. In Senegal, other factors aggravate the level of poverty. In fact, from 1994 to 1998, prices rose because the ending of price control on many products led traders to speculate and to raise many prices. Also, the suspension of public subsidies brought prices up on some products, hurting consumers of these goods. However, the suspension of these public subsidies saved money for the government that could make Senegalese society in general better off, if the government spent it wisely or returned the money to the Senegalese people in the form of tax cut. At the beginning of the reforms, the reduced income generated by rural activities, unemployment, and the continuous downward pressure on wages due to the massive privatization and re-structuring of industrial enterprises during the adjustment period decreased the level of spending power of the workers in the directly affected industries. In response to the situation, people, many young urban people, had to create their own

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<sup>38</sup> Paper on "Sustained Growth and Persistent Poverty in Senegal," Abdoul Souleye Sow, Taoufik Ben Abdallah.

<sup>39</sup> *The Economist*: "A Survey of the Third World. Poor Man's Burden." September 1989. p. 3.

<sup>40</sup> World Bank Policy Research Report 1994: *Adjustment in Africa*, p. 163.

means of survival.<sup>41</sup> The informal sector arose and was the main entry-point into the workforce for these young people. Although millions of dollars were provided to increase employment in order to decrease poverty, reversing the trend toward massive unemployment affecting the country was difficult. From 1988 to 1990, union activities against layoffs of employees were virulent and inflation was high; therefore the Senegalese government delayed or rejected elements of the reform program, violating the agreements with external agencies. The partners at development, which believed that pursuing the economic reforms could lead to a general strike, tolerated this breakdown in the reform process.

In many other countries, such as Ghana and Mozambique, national entrepreneurs who were against the market liberalization have harshly criticized the World Bank over its insistence on full trade liberalization. In Senegal, entrepreneurs of the Professional Union of Industrialists (SPIDS) concluded that the trade liberalization has hurt the local industry by allowing an influx of cheap foreign imports. In Mozambique, industrials have complained about the lifting of the surtax on raw cashew exports that would not allow them to be competitive and, therefore, would force a shutdown of their factories.<sup>42</sup> Taking such concerns into account, Mr. Wolfensohn, the President of the World Bank, stated during his visit in Mozambique: “The best thing would be to have a world-class processing industry.” However, when addressing Ghana’s Parliament, Mr. Wolfensohn admitted that the World Bank wants to listen to its partners and be flexible with them.<sup>43</sup> As a matter of fact, these economies were not well prepared for reforms and have been protected from external competition for a long time.

In reality, the entrepreneurs desired an alternative policy that could process the reforms gradually in order to give the enterprises time to prepare for a more open economy. The problem with this alternative is that it would hurt consumers since local

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<sup>41</sup> A household survey conducted from 1991 to 1995 showed an indicator of caloric intake below the poverty threshold. In fact, 58% of households are living below the minimum of 2,400 calories per day for adults. See Senegal Interim Poverty Reduction Strategy Paper. May 8, 2000. Available on-line at [www.imf.org/external/NP/prsp/2000/SEN/01/INDEX.HTM](http://www.imf.org/external/NP/prsp/2000/SEN/01/INDEX.HTM).

<sup>42</sup> The lifting of the surtax caused a decrease of taxes on cashews imported to Mozambique. Therefore, these cashews imported were cheaper and more price competitive than the Mozambican cashews.

<sup>43</sup> Africa Recovery, Vol. 10 No. 4, January-April 1997. Available on-line at: [www.un.org/ecosocdev/geninfo/afrec/1997/wbank.htm](http://www.un.org/ecosocdev/geninfo/afrec/1997/wbank.htm).

products would be more expensive than imported products. Although advocates of state intervention in the economy think that the markets are not perfect because resources are not well allocated in developing countries, in reality state intervention has undermined economic reforms in many developing countries.

Poverty has enhanced and fueled the growth of the informal sector because consumers who have low incomes and are more numerous shop for goods and services in the informal sector. Although these goods and services are often of low quality, compared to those in the formal sector, they meet the survival needs of the consumers (Fidelis Ezeala-Harrison and Senyo B-S-K. Adjibolosoo. 1994, p. 72). Products for sale are often repackaged in very small portions or by piece to allow poor consumers to buy certain items, usually food, in affordable quantities. Small packaging includes selling sugar by the cube and buying coffee, tea or powdered milk in small plastic bags. Street food has become a booming business in Dakar and other urban centers. In the Republic of Benin, such food is often called “all terrain food” or “food aid” because it is cheap, is readily available and fills hungry stomachs. The quality of the food does not matter much. What is important is that one can avoid hunger while working.

Women often work in the food processing sectors. For example, certain surveys estimate that in Dakar, 50,000 women are involved in small-scale food processing. Women are strongly involved in individual entrepreneurship in Senegal. Women in Senegal have poor access to education and training. As a result, employment opportunities for women in the formal sector are very limited. Despite gender-equity and antipoverty programs implemented by the World Bank, women have not benefited much from these programs; therefore, they become involved in the informal sector to survive. For example, according to UNESCO, in the Republic of Togo and in the Republic of Benin, at least 90% of the women are involved in the informal sector, whereas women are only 6% of the private formal sector. According to the “Program on Poverty Reduction Strategy” implemented with the support of the IMF, the Senegalese government has made efforts to improve the status of women. Progress has already been made in education where the objectives were to raise the primary education enrollment rate to 70% in the year 2000 and 75% in 2001. The recommended objective by the partners at development is to reach 95% by 2008. The effort will focus on eradicating



illiteracy, especially among women (Senegal Interim Poverty Reduction Strategy Paper. May 8, 2000).

## **C. THE INFORMAL SECTOR: THE FINANCIAL AND TAX ISSUES**

### **1. Financial Issues**

The Senegalese banking system continues to be reformed to improve the efficiency of the economy. The first reforms limited government access to bank financing. These reforms have been pursued in order to develop a monetary and credit policy and a financial market. The following actions have been implemented to reach the objectives

- Design a credit policy consistent with targets for regional growth, inflation and external assets;
- Enhance the soundness of the banking system and improve financial connections;
- Promote private equity and develop the market for securities.

Some companies have no particular problem with the banking system. They have obtained the resources needed for their current operations and for their investments from the banks. However, the majority of enterprises complain about the high interest rates and the complexity of the system. For example, the West African Countries Central Bank (BCEAO) uses very demanding criteria to assess the credibility and reliability of any commercial banks that want to borrow money beyond a certain amount. Thus, companies that do not satisfy these criteria could not issue bonds or shares. Therefore, commercial banks do not to lend large amounts of funds to enterprises.<sup>44</sup> Nevertheless, the financial institution system offers some interesting possibilities, such as credit sale, the financing of credit sale, leasing and venture capital. The companies complain about the interest rates charged by these institutions and their reluctance to lend to small and medium size companies. Naturally in keeping with these standards, the banks were much more reluctant to lend to the enterprises of the informal sector than to those of the formal sector in which they own shares. Most actors in the informal sector cannot meet the bank

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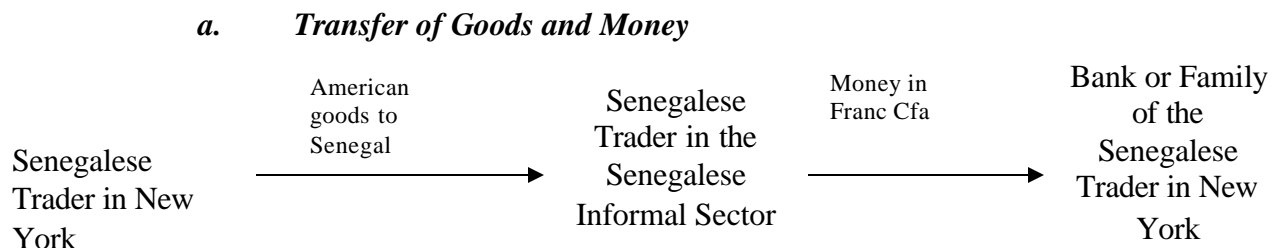
<sup>44</sup> “Barriers to Business Expansion in a New Environment: The Case of Senegal,” p. 13. Available online at: [www.eagerproject.com/discussion31.shtml](http://www.eagerproject.com/discussion31.shtml).

requirements to obtain credit. Very often banks argue that they cannot lend money to the informal sector because people in the sector:<sup>45</sup>

- Do not possess credit history and lack collateral;
- Do not live in areas near banking centers;
- Are illiterate and inexperienced with the banking operations;
- Need small loans for short periods of time and on an almost immediate basis as their investment opportunities come and go quickly;
- Make small deposits and make frequent withdrawals from savings, which add to the bank's costs (Webster, L. & Fidler, P., p. 22).

In fact, 93.8% of the actors in the informal sector declare that they have never qualified for a bank loan (Senegalese Ministry of Trade Preparatory Report on the Informal Sector, 2001). Despite micro-finance institutions that do lend to poor people, actors in the informal sector generally use other methods besides the formal sector for financing. However, this situation drains cash from the banking system, thus making it difficult to know the exact amount of savings in the economy. This money, circulating within the informal sector, moves inside and outside the country. The process used to transfer the money is practical and cheaper than the conventional banking system. The system is based on a strong relationship between people in the informal sector. The charts below demonstrate one of the processes.

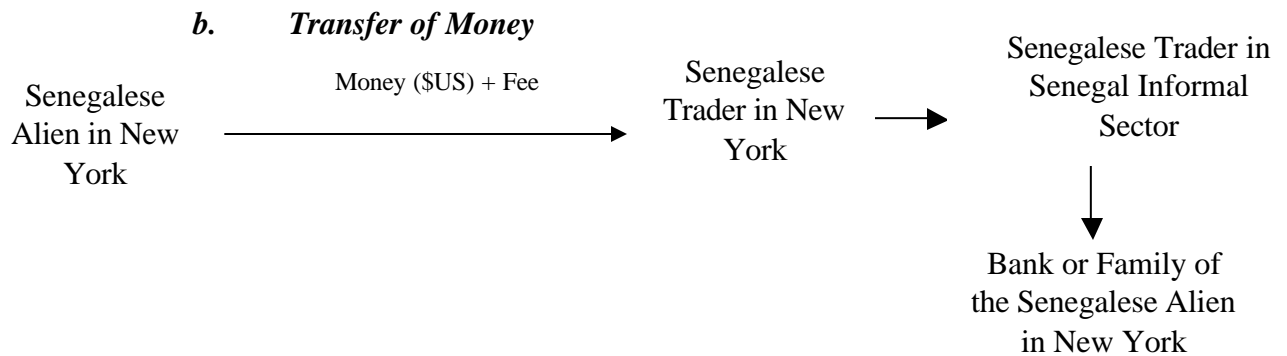
The first chart below explains the process of transferring goods for money that is composed of three steps:



<sup>45</sup> "Informal Education Strategies for Skill Acquisition in West Africa: A Review of the Literature and of Recent Significant Research Results." Available on-line at: [www.fsu.edu/~1v-adea/english/abe13.html](http://www.fsu.edu/~1v-adea/english/abe13.html).

- **Step One:** A Senegalese trader in New York obtains and sends American goods to Senegal;
- **Step Two:** A Senegalese trader in the Senegalese informal sector sells these American goods to customers in Senegal and receives payment in Franc Cfa;
- **Step Three:** The trader in Senegal gives the money received from the sale of the merchandise to the New York trader's family in Senegal or places the money in the New York trader's Senegalese bank account.

The second chart below describes the process of transferring money. It also involves three steps:



- **Step One:** A Senegalese alien in New York gives a Senegalese trader in New York a sum of American money, including a fee for making the transaction;
- **Step Two:** The Senegalese trader in New York calls another trader in Senegal who works in the informal sector to confirm that he has received the cash and the fee;
- **Step Three:** This second Senegalese trader then delivers the money in local currency to the Senegalese beneficiary in Senegal designated by the Senegalese alien in New York.

These processes suppose a permanent availability of money with the Senegalese trader in the Senegalese informal sector. These systems work and appear to be cheap and fast. For example, to send \$1,000 to Senegal through Western Union at the rate of today (June 11, 2002), one has to pay a \$70 fee for the transfer. The transfer of this

money takes at least one day. For the same amount at the same date and for the same destination through a Senegalese trader in New York, one has to pay only a \$30 fee for the transfer. In addition, the exchange rate of the dollar with the Cfa is always below the current one of the official market for someone who uses the informal process of transfer. The exchange rate is also negotiable; people very often bargain for a low rate. The amount sent through the Senegalese trader in New York is available for the Senegalese beneficiary in less than one hour after the Senegalese trader in New York receives the money. The informal system of money transfer is also cheaper because it is very often an additional service to a main business that the Senegalese trader runs in New York. There is almost no additional charge of personnel or office rent. Only a telephone/fax is enough to run this kind of business. Also, the informal system of transferring money is more flexible than the formal one. In fact, in the American formal process of transferring money, if one transfers abroad \$10,000 over a time period of one month from a same sender (Banks or Western Union), he has the obligation to fill out an Internal Revenue Service (IRS) form and to communicate his social security number or any other valid identification number. This American formal process is full of red tape, compared to the Senegalese informal system of transferring money in which, one saves more time and money. The family members and best friends are involved and are also interested in making the system reliable. The currency does not move from place to place and the network plays an important role in the procedure.

Other systems are used in the informal sector, such as the “Tontine” or the Mutual Guarantee Association (MGA). Despite some similarities, tontines and the MGA differ. In fact, the tontine is essentially informal whereas to deal with banks, the MGA must fulfill some formal requirements. Also, tontines are not permanent and the MGA is intended to be a lasting self-help organization with a specific financial function. Moreover, the MGA belongs to the formal financial sector whereas tontines are essentially informal and reluctant to deal with banks. In term of objectives, tontines are multi-purpose, and the MGA has the single objective of facilitating access to bank credit.<sup>46</sup> The tontine is a traditional, informal saving organization, whereas the MGA is a

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<sup>46</sup> Bernd Balkenhol and E. H. Gueye. “Tontines and the Banking System: Is There a Case for Building Linkage?” Available on-line at: [http:// oracle02.ilo.org/public/English/employment/finance/papers/wpap-2.htm](http://oracle02.ilo.org/public/English/employment/finance/papers/wpap-2.htm).

group of people that pool resources into a fund to cover a bank claim in case one of the associates defaults on a loan.

*c. How Does a Tontine Work?*

Members of a Tontine contribute, for example, 100 Cfa each at a monthly meeting. The first person is chosen randomly and receives, if there are 20 members, FCFA 2000 Cfa, whereas the next month, another person, chosen randomly, receives the same amount as an interest free loan. However, the person must stay in the group and continues contributing every month. Also, if a member incurs an unexpected debt the group can make some arrangements to modify the sequence. In case one of the members dies, the amount he owes to his contributors is claimed to his inheritors but very often, people in a tontine are so close that such a claim is never made. The money the deceased owed is let to his family as a memorial fund. The members share a deep sense of solidarity.

In Senegal, women create small businesses from the money received or use the tontine system to shop for important items they are unable to afford otherwise. Many types of tontines exist:

- The Neighborhood Tontine: In this tontine, women are mainly involved. It is organized to finance the social events of tontine members;
- Work Place Tontine: The members work together in the same office or operate in the same market. The system helps to co-finance industrial or commercial investments undertaken by individual members or the group as a whole;
- The Community-based Tontine: The collected sum is spent on a collective investment (farming activities, social events, and so on).

In the late 1980s, the International Labor Organization (ILO) and the General Bank of West African States (BCEAO) conducted a training program on commercial bank lending to small enterprises. As a result of this program, it was clear that commercial banks were unprepared to make adjustments or to be innovative and extend financial services to small-scale operators. Therefore, the informal sector realizes that looking beyond the banking sector helps finding ways to deliver financial services on a small scale and at a low cost.

Micro-finance is very important in developing countries where most people work in the informal sector. Many small-scale businesses and low-income entrepreneurs are bringing progress to many West African economies, owing to innovative financial institutions that provide small loans and technical advice to poor and under funded micro-enterprises. On June 19 to 21, 1996, a West African high level policy forum was held on micro-finance and its potential impact on poverty reduction in Bamako, Republic of Mali. The government of the Republic of Mali, the World Bank, and the Consultative Group for Assistance to the Poorest (CGAP) hosted the event. Finance ministers, Central Bank governors and micro-finance practitioners from 16 West African countries attended. This gathering focused on how to implement a financing system that could help support small-scale businesses in order to reduce poverty. At this time, it was important that the micro-finance institutions provided the needed capital and technical assistance to the millions of micro-enterprises of the informal sector that formal banks do not serve. Again, these micro-enterprises, in West Africa, account for 30% to 50% of the GDP and 50% to 75% of employment in many countries. A financing system is necessary to help these businesses develop and progress.

Small-scale financing is one of the most effective tools for improving Africans' economic prospects and helping them combat poverty. Ms. Thelma Awori, Deputy Assistant Administrator of the UNDP, said during a conference in Mali that, "The growing and powerful lesson of micro-finance is that financial services are a basic need which can integrate the poor in the economic life of their societies."

Many micro-credit organizations raise a significant portion of their funds from local savings. The Senegalese Ministry of finance has, in October 1996, identified 363 local savings and credit banks, commonly known as "mutual."<sup>47</sup> The ability of micro-credit organizations to mobilize domestic capital is particularly important at a time when both governments and donors are experiencing severe constraints. Micro-credit organizations have various approaches to lending. Some of them deal with individual enterprises and others with organized groups. However, it is costly to manage many small loans as those who receive the loans are often scattered across rural areas. For this reason,

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<sup>47</sup> "Micro-Credit: A Weapon against Poverty." Available on line at: [www.indopubs.com/iri-1-archives/0142.html](http://www.indopubs.com/iri-1-archives/0142.html).

banks rarely become involved in such operations. Therefore, many micro-credit organizations agreed that people must organize themselves to reduce the costs of the loans. Due to the high risks in this type of business, micro-credit organizations charge interest rates far higher than those of commercial banks.

The amount of money that is in the informal sector and, therefore, out of the banking system, must also serve the formal Senegalese economy through an intelligent and fair system that can make people willing to put their savings in banks. Such a policy will improve the overall economy by raising investment and production.

## **2. The Informal Sector and the Tax System**

One of the reform measures in Senegalese economics is to expand the tax base and increase tax revenues. For example, in the fiscal year 1998 budget, the total revenue was estimated at Franc Cfa 516.8 billion (US\$ 861 million), a decrease of 3.1% compared to the 1997 budget. In 1998, taxes represented Franc Cfa 442 billion (US\$ 736.6 million) of the 1998 budget. This was an increase of 10.1% compared to 1997. The 1998 taxes were Franc Cfa 11 billion in income tax, Franc Cfa 9 billion in custom duties, and Franc Cfa 22.5 billion in value added tax.<sup>48</sup> The Senegalese government has implemented many laws to simplify the taxation of small enterprises and to reach the maximum number of taxpayers in the informal sector. While operating businesses, many people in the informal sector benefit from public investment in security, highways and other public utilities without paying taxes. According to Charbel Zarour's report on the Senegalese informal sector (USAID/Senegal-Report on the Informal Sector in Dakar. August 1989),<sup>49</sup> 14.5% of the informal enterprises are known by the official administration, and only 25.8% of these enterprises pay their taxes (See table 7 below). These taxes were those that were collected at the work place, such as license taxes or indirect taxes (stamps or service taxes). Moreover, 97.5% of the informal sector does not use an accounting system for its business operations. Therefore, even a flat income tax would be difficult to apply to these enterprises. Nevertheless, according to Zarour's survey, 82% of these enterprises have expressed their need to become familiar with the

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<sup>48</sup> "Economic Reporting: Senegal Adopts a "Rigorous" Budget for 1998." Available on-line at: [www.dakarcom.com/econ\\_rigorous.htm](http://www.dakarcom.com/econ_rigorous.htm).

<sup>49</sup> Charbel Zarour. U.S.A.I.D./Senegal. "Étude du Secteur Informel et de ses Environs." Phase III, Rapport Final. Août 1989.

administrative rules in order to conduct business legally. The more the government taxes these informal activities, however, the greater will be the discouragement to economic growth.

Table 7. Percentage of Enterprises of the Sample that Paid Various Taxes.

Branches of Activities	Number of Enterprises That Have paid Various Taxes	Number of Enterprises in the Sample	Percentage %
• Production			
Cloth	25	104	24.0
Wood	27	118	22.9
Metal	37	125	29.6
• Services			
Vehicle maintenance	35	96	36.5
Electric maintenance	10	67	14.9
Other Services	5	23	21.7
• Construction			
Piece-Work	5	25	20.0
Total	144	558	25.8

From: USAID Senegal Report on the Informal Sector. August 1989, p. 148.  
Errors in the table above are due to rounding.

#### D. THE INFORMAL SECTOR: FRAUD AND CORRUPTION ISSUES

Fraud and corruption obviously undermine efforts to implement reforms for growth and development. Jean Bonvin, the President of the Organization of Economic Cooperation and Development (OECD) asserted that fraud and corruption divert human and capital resources from productive activities, undermining both the state and its institutions. Fraud and corruption seriously affect public savings, and consequently growth is hampered because part of the potential investment is not used to develop the country. In Senegal, reforms have been adopted to allow the fiscal administration to



lower fiscal fraud in order to improve growth and development. For example, import taxation has been lowered on many products susceptible to fraud in order to reduce the incentives to engage in fraud and corruption. Non-tariff barriers, which consisted mainly of import licenses that were delivered selectively to the importers by the administration, were used to protect certain Senegalese enterprises from the external competition. They were eliminated because Senegalese operators who could not obtain import licenses or afford high custom duties engaged in fraud and corruption in order to lower the prices of their products and be competitive.

In their technical paper on “Determinants of Custom Fraud and Corruption: Evidence from Two African Countries,” David Strasvage and Cecile Dombree made an econometric test of the determinants of fraud in Senegal.<sup>50</sup> They measured the fraud in the customs office. To know how fraud can occur in the process of importing goods in Senegal, it is important to understand standard procedures for taxation of imports in Senegal. As mentioned in Chapter II and explained by Strasvage and Daubree, in Senegal, those who import goods must declare the value and describe their goods and, based on this declaration, a customs official verifies the tariff classification of the imported goods and calculates the tax. This calculation is based on the tariff classification of the product and on any exemptions, which may be accorded. This process of assessing taxes for import goods is known as “assessment.” Once the import taxes are calculated, the importers are required to pay the taxes owed to the Senegalese Treasury. In Senegal, as in many African Countries, a private “pre-shipment inspection” company has been added to the process of taxation. In Senegal this pre-shipment company is called “Societe Generale de Surveillance (SGS).” The Societe Generale de Surveillance inspects any shipment in its country of origin in order to recommend a value and tariff classification. Also, the Société Générale of Surveillance can be mandated to conduct a follow-up check to verify if its recommendations have been followed. The Société Générale of Surveillance has been mandated to fight against such fraud as false declarations of values of imported products.

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<sup>50</sup> David Strasvage and Cecile Daubree. OECD Development Center. Technical Papers No. 138: “Determinants of Customs Fraud and Corruption: Evidence from Two Countries.” August 1998. Available on-line at: [www.oecd.org/dev/pub/tp1.htm](http://www.oecd.org/dev/pub/tp1.htm).

As Strasvage and Daubree discuss, there are many opportunities to engage in fraud when the customs employees assess the import taxes. These opportunities include:

- Under-declaration of the true value of the imported goods;
- Misclassification of the imported goods tariff category;
- Correct declaration of the imported products' value and tariff classification but underpayment of import taxes based on a false assessment of tax liability;
- Tax evasion when taxes are correctly assessed but never paid and the goods are released by the customs office anyway;
- Smuggling without the knowledge of customs officials.

Under-declaration, misclassification, and tax evasion have been the most recurrent modes of fraud in Senegal. Strasvage and Daubree showed that the rate of assessment, which is simply the total value of import tax assessments divided by the total declared value of imports, has been in a sharp decline since 1993. This could be the result of trade liberalization or an increase in fraud (See table below).

Table 8. Overall Import Statistics for Senegal (Billion of Cfa).

	1991	1992	1993	1994	1995
Imports (Cost, Insurance, Freight)	309.4	333.1	281.9	390.7	691.1
Import Tax Assessment	112.8	172.2	103.0	126.8	163.4
Rate of Assessment	36.45%	51.69%	36.53%	32.45%	23.64%

From: IMF, Direction des Douanes du Senegal, World Bank, Dakar.

To determine fraud on imported goods, Strasvage and Daubree looked at statistics on individual products, in particular those products that frequently entered Senegal fraudulently. Sixty products were identified as susceptible to fraud. These sixty products include consumer goods, such as milk products, rice, tomato concentrate and matches.

These sixty products represent 19% of the total value of imports, on average, for the period 1990 to 1995. The rates of assessment on these sixty products “sensitive” to fraud have, on average, increased at the same time that official rates of taxation have been reduced. What likely happened can be illustrated with a numerical example. Assume that the rate of taxation is 20 percent and that, at that rate, a number of importers smuggle. Then, although the importers import, say, 10,000 cases of matches, they declare only 4,000 cases. So the rate of assessment, that is, taxes actually paid as a percent of the value of all matches imported, legal or illegal, is only 8 percent. Then assume that the government cuts the tax rate to 10 percent. At this lower tariff, some people who smuggled decide that the risks of smuggling are not worth bearing to avoid a 10 percent tax. So now 12,000 cases of matches are imported, of which only, say, 2,000 are smuggled. So now the rate of assessment, that is taxes as a percent of the value of all matches imported, has actually risen to 8.33 percent (10% of 10,000 divided by 12,000). Decreased taxes are efficient solutions for decreasing fraud and corruption. Based on this data, Strasvage and Daubree have shown that the indicator for fraud, which is the gap between the official rates of taxation and the actual rates of assessment, has dropped from 21% in 1990 to 3.2% in 1995. This indicated that fraud on these products has been reduced in Senegal. After examining the gap between the rates of assessment computed in table 8 and the official rate of taxation, Strasvage and Daubree concluded that:

- Increases in import taxes have led to increased fraud and corruption in Senegal;
- The pre-shipment inspection, SGS, has contributed to decreased fraud;
- The devaluation of the Cfa appears to have been associated with an increase in fraud. In fact, imported products have become expensive, so importers have relied on fraud or corruption to decrease their costs;
- Market liberalization reduced the incentives to engage in fraud and corruption.

This evidence suggests that to reduce fraud in the import of goods to Senegal, the government should remove tariffs and other import restrictions.

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## **IV. POLICIES TO IMPROVE SENEGALESE ECONOMIC REFORMS**

### **A. GOVERNMENT AND PARTNERS' RELATIONSHIPS**

Seemingly, the government, the World Bank, the IMF, and so on, when reforming the Senegalese economy did not discuss all the factors, such as the political and social constraints that the Senegalese government would face. The Senegal economic reform has been ongoing for more than twenty years without fully attaining its objectives. Although, in 1981, the Senegalese President was ambitious about economic reforms, but the reform process has not reached its objectives. This situation was due to many reasons.<sup>51</sup> First of all, there was a lack of political will resulting from fear of electoral defeat and societal pressures. Also, the peasants were unable to sell their peanuts after private traders replaced the SONAGRAINES. What happened was the banks financed the private traders, who then simply used the money for more profitable investments than groundnuts. The Senegalese President reported that the IMF and the World Bank were responsible because they wanted SONAGRAINES eliminated without ensuring about reliable private traders to replace it.<sup>52</sup> Finally, some of the political elites, such as Ministers or Parliaments who were supposed to support the economic reforms decided by the Senegalese President, were convinced that the International Monetary Fund and the World Bank policy recommendations were inappropriate for the country.

The Senegalese government was involved in economic reforms without fully explaining the content of the reforms to the Senegalese people. Instead of testing the credibility of the reforms, the Senegalese regime should have included the economic reform proposal in its campaign to assess its popularity before engaging in it. In addition, most members of the political elite, the private sector and the Senegalese people were poorly informed of the strategies and objectives of economic reforms. People feared the reforms would benefit the richest and harm the poorest. Most Senegalese equate reforms with layoffs, inflation, and a decrease in spending power. They appreciated reforms only

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<sup>51</sup> See: "Voting for Reform," p. 292.

<sup>52</sup> 1. See: "Wal Fadjiri" newspaper, March 4, 2002". Available on line at: [www.walf.sn/politique/index.CFM?articles\\_num=7866](http://www.walf.sn/politique/index.CFM?articles_num=7866) and 2. See: Sud Quotidian newspaper, March 4, 2002. Available on line at: [www.sudonline.sn/Rubriques%20Infos/Economie/econo2.htm](http://www.sudonline.sn/Rubriques%20Infos/Economie/econo2.htm)

when the immediate effects were evident. Moreover, sometimes members of the IMF and World Bank teams who negotiate with the political elite do not fully comprehend African realities, so they cannot make reasonable recommendations on how to improve the economies of these nations. In order to implement the reform process successfully, all parties, the Senegalese government, the IMF, and the World Bank must overcome the aforementioned obstacles. The terms of the reform process must be included in political programs and fully disseminated to gain popular credibility and confidence. The IMF and the World Bank delegation from Washington must consider the sensitive aspects of African realities in order to deal with economic reforms in Africa. People in local IMF and World Bank agencies who know the African countries' realities because they practice on the terrain on a daily basis must be strongly involved in the negotiations undertaken with local governments. This can help to make efficient recommendations to reform the economies.

#### **B. WHAT CAN BE DONE FOR THE MILITARY?**

The Senegalese military is a professional organization that has not engaged in war since the country gained its independence. The military was engaged in only two significant external interventions. One was in Gambia in 1981, where a communist regime was about to be installed by a rebel group that intended to conduct a coup d'état. The second was in Guinea Bissau in 1998, where a mutiny took place, and thereafter, a witch-hunt was conducted to identify those in the Guinea Bissau military who supported the Casamance rebellion against Senegal. To avoid bloodshed in Guinea Bissau, to protect democracy and to cut supply lines to the rebels in Republic of Guinea Bissau, the Senegalese military intervened in Guinea Bissau. Aside from these two events, the Senegalese military is still fighting the rebellion in Casamance and the Senegalese government is paying dearly for it. Despite the relative ease of portraying the rebellion in ethnic terms, the origins of the conflict in the southern Senegalese region of Casamance between secessionist guerrillas and state security forces are largely economic and political in nature. Since 1982, the Senegalese government endured the military and financial cost of fighting and overcoming the Casamance rebellion that is paralyzing what used to be one of the country's most fertile agricultural zones.

In addition to the effort to fight the Casamance rebellion, the Senegalese military is engaged in UN missions and is also engaged in various government missions within the country. The Senegal military has many medical experts, engineers, and other kinds of experts. In accordance with the economic adjustments and the size of the country, the Senegalese military can be reformed through these measures:

- Define the exact military personnel and materiel necessary to secure the Casamance and help eradicate the rebellion in this area. This is very feasible since the war against the rebellion has been going on for more than twenty years, proving that only a political solution can be applied to the situation;
- Reduce the budget by military downsizing.

In fact, the rebellion in Casamance represents a significant cost for the Senegalese government in military expenditures and also in agricultural waste since the Casamance fertile lands cannot be exploited. Therefore, the government must undertake political and military efforts to safeguard the Casamance people but also to end the rebellion in order to make the Casamance lands economically profitable for the Senegalese and provide other economic opportunities.

Military personnel expenditures (total military pay = 34.1 billions Francs Cfa) represented 20% of the total Senegalese pay for government workers in 1995 and 82% of the overall military budget (the military budget = 41.4 billions Francs Cfa)<sup>53</sup> for the same year. For the 2001 fiscal budget, military personnel expenditures were approximately 39.5 billions Francs Cfa, which represented 22% of the Senegalese government pay for 2001 and 76% of the overall military budget for fiscal year 2001. These statistics indicate that the Senegalese military personnel expenditures are very high relative to the military missions needed and to the level of underdevelopment of the country. Therefore, the Senegalese government can initiate a voluntary departure program for the military to save money. Military experts who are willing to leave and become involved in businesses can contribute to improve the Senegalese economy. After reforming the military, Senegal can develop a disciplined and high quality defense force to enhance the security of the country (Nadir A.L. Mohammed. 1999, p. 13). Reducing military expenditures can help

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<sup>53</sup> Senegalese fiscal year 1995 budget.

to decrease government taxes by about the same amount in order to improve private savings and investments.

### **C. REDUCTION OF INSTITUTIONAL OBSTACLES**

In their paper on the informal sector, “Firm Dynamics and Institutional Participation,” July 20, 1998, Alec R. Levenson and William F. Maloney explain how being formal can improve production. Maloney and Levenson point out that some contributions to the academic literature emphasize the firms’ desires to avoid paying taxes, regulations or other state controls (Loayza, 1995). Other contributions see the inability to access institutions, such as those securing property rights, as hampering firm growth (De Soto, 1989). The two authors mention that these views are valid as special cases of a more general and continuous relation between the firm and the society. Maloney and Levenson argue that a minimal degree of participation in some institutions is a necessary input to growth for many firms and that participation increases with the success of the business. They use the standard production function that integrates capital (K) and labor (L), and introduce participation (P), a normal input to production and defined as participation in societal institutions. In the equation, all three inputs are complementary. Then, the equation is written as follows:  $Q = F(L, K, P)$ . Based on this equation, Maloney and Levenson point out three main benefits of participation.

All entrepreneurs have access to social relationships to enforce implicit contracts among their friends and family, who form their potential customers and employees. Participation in the legal system is needlessly expensive for transactions. Similarly, the mutual extended network of friends and family, as it exists in the informal sector, may handle social expenditures such as health insurance. However, personal relations sustain this mode of operation with all involved parties, which is unmanageable when the business expands. Legal participation in institutions facilitates making long-term commitments, diminishes risk, and can reduce monitoring costs.

Informal capital markets may be sufficient to fulfill the firm’s external financing needs at low levels of production. However, the small scale and undiversified nature of the informal capital market makes them unsuitable to meet the financing needs on a grander scale of operation. When the firm expands, it will turn to formal institutions like banks.



If the firm wants to attract well-qualified and quality workers, it has to ensure that its employees have health insurance, pensions and so forth. Incentive policies must be implemented for the informal sector to become involved in participation in institutions. Non-governmental organizations and many development partners have implemented many educational and financing programs in the informal sector.

Whatever these benefits, participation must be the enterprise's own decision. It is highly important to avoid any regulation that forces the informal sector to participate. It was noted earlier that, in Senegal, the attempt to involve the informal sector in numerous institutions of civil society, federal and local treasuries, governmental programs (pensions, health care), the legal system, the banking system, health inspection, trade organization and so on was a failure. The informal sector is generally a stage that satisfies its people with a little degree of participation or not at all. Therefore, forcing participation for the informal sector would be a way to eliminate it. How much to participate in institutions should result from a free decision of the entrepreneurs.

The adjustment and structural reforms must integrate pertinent measures that avoid regulating and involving the informal sector in institutions. However, incentive policies can be made to encourage the informal sector to eliminate the constraints to its development and to follow a natural process that leads to decisions of how it should participate.

#### **D. EDUCATION ISSUES IN THE INFORMAL SECTOR**

Most people in the informal sector have low levels of education and literacy since many of them are school dropouts or are educated and literate only in Arabic. This latter situation is complicated by the fact that anything official in Senegal is in French.

In fact, Senegal was colonized by France and inherited the French official administrative system and language. Therefore, in order to deal with the official institutions, basic literacy in French is useful. A survey of people in the informal sector found that of 558 entrepreneurs sampled in the informal sector, 430 agreed to give information on their level of education. Of these 430 entrepreneurs, 22.1% were illiterate, 34.7% were literate in French, and 43.2% is literate mainly in Arabic (Zarour, 1989, p. 95). The level of education and literacy in French is too low to allow people in the

informal sector to understand fully how to deal with the official administrative agencies. Most informal entrepreneurs have a high level of education and literacy in Arabic, but this is not helpful in dealing with the official agencies using French. This is a major obstacle to participating in institutions. In my opinion, the incentive policy to remove obstacles due to the low level of education and literacy in the informal sector can be designed around the propositions that follow

- The government can hire people who are well educated and literate in French, Wolof, and Arabic to facilitate contacts between those in the informal sector who are educated and literate in Wolof and Arabic
- Officially recognizing the level of training in the informal sector through official diplomas can make skills and experience acquired in the sector a valuable incentive to deal with institutions and to benefit from them.

The policy can be designed around many other incentives to help the informal sector work with institutions.

#### **E. CREDIT POLICY FOR THE INFORMAL SECTOR**

We have already observed how the lack of credit inhibits growth in the informal sector. The survey cited in the Senegalese Ministry of Trade preparatory report on the informal sector shows that:

- In the informal sector, 93.80% of the people have never borrowed money from banks, and only 12% of enterprise promoters have borrowed money from banks. This weak percentage of borrowers is due to the banking criteria, such as financial guaranties or collateral that sometimes unable the informal sector to take financial risks. For example, although 79.83% of the people in the informal sector can afford the financial guaranties and collateral they do not want to take financial risks because of their high amounts, and 30% cannot apply for credit because of lack of money;
- In the informal sector, 50% of the people claim that applying for banking credit is not necessary. Also, 68% rely on their own funds to run their businesses, 18% of them received funds from parents or friends, 3% used tontines or other similar structures, 10% used mutual financial associations, and 1% used other financial sources;
- As for informal enterprises that have obtained credits, 12% have obtained credits from the banking system, 25% from Non-Governmental Organizations (NGO), and 63% from the decentralized financial system, such as mutual financial associations.

It appears from the survey cited by the Senegalese Ministry of Trade report on the credit issues of the informal sector that people rely mostly on financial sources other than

banks. The multitude of NGO that have succeeded in the informal communities and have replaced banks have unfortunately very high interest rates that are necessary to cover their costs. The best incentive policy is to deregulate the financing market. In so doing, competition between credit organizations would allow decreased interest rates and the liberalization of the financing market that would derive from the deregulation would promote tontines and other informal ways for financing businesses.

#### **F. POLICY AGAINST FRAUD AND CORRUPTION**

Fraud and corruption carry high political, economic, and social costs. The economic reforms implemented in Senegal have substantially decreased fraud and corruption. Deregulation of the economy, in areas such as market liberalization and privatization, has played an important role in combating fraud and corruption. Very recently, Wal Fadjiri, a Senegalese newspaper, reported on a survey conducted by a Senegalese civil society organization called “FORUM CIVIL” through “Orgatec,” a survey organization.

The Orgatec survey reported that traffic police and customs officers are the two most corrupt groups in the Senegalese administration. Based on samples of 396 Senegalese enterprises and 1,227 important people, the survey shows that 72.2% of businessmen and 53.3% of individuals say that police personnel are more corrupt than the other Senegalese government personnel. As for the customs, the data for the same samples are respectively 63.9% and 55%.<sup>54</sup> The customs chief executive rejected the Orgatec survey results, labeling them as erroneous and motivated by politics. He argued that the tools used for the survey are not reliable.<sup>55</sup> This controversy shows the presence of corruption in the country. Thus, since it is so important to combat fraud and corruption, the Senegalese government must show more determination to advance the economic reforms process and to eliminate corruption in the country. Decreasing custom duties can help to diminish fraud. During many meetings of Senegalese government agencies, businessmen argued that fraud and corruption could be substantially reduced if

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<sup>54</sup> See: “Wal Fadjiri” newspaper of May 16, 2002. Available at: [www.walf.sn/actualite/index.CFM?articles\\_num=9460](http://www.walf.sn/actualite/index.CFM?articles_num=9460).

<sup>55</sup> See: Wal Fadjiri newspaper of May 18, 2002.

custom duties are significantly decreased. They also said that they were willing to pay additional taxes if corruption were eliminated.

## V. CONCLUSION

The economic reforms in Senegal were fully implemented during and after the devaluation of 1994. A series of programs of adjustments and economic reform were aimed at restoring the conditions for strong, sustainable economic growth and ensuring domestic and external financial viability. These programs were supposed to reduce inflation and the deficit quickly, and also included wide-ranging structural reforms aimed at liberalizing the economy, reducing the size of the public sector, and fostering the private sector development. The programs were intended to increase the standard of living of the most disadvantaged social groups. Therefore, these programs allowed changes that enabled those in the informal sector to obtain the opportunities and advantages of free trade. The programs focused on

- Eliminating barriers to free domestic trade;
- Eliminating the requirement that importers get licenses to import goods that compete with domestically produced goods;
- Eliminating export subsidies;
- Eliminating monopolistic agreements;
- Privatizing major public enterprises;
- Eliminating the need for business to consult government before laying off workers.

These measures are on the brink of reaching the objectives of the economic reforms process, such as free trade and free business, in order to increase growth and to reduce poverty. The negative effects of these measures on employment, on wages, and on poverty are likely only transitory; naturally, much time is required to affect the entire economy positively. The economic reforms definitely decreased fraud and corruption, decreased government participation in the economy, increased economic freedom, and improved the macroeconomy. In fact, the Senegalese real GDP growth surpassed 5% on average between 1996 and 1998, driven essentially by services, construction and industrial production. Along the same lines, inflation decreased from 2.6% in 1996 to 1.8% in 1997 and 1.1% in 1998. Also, the current account deficit as a percentage of the GDP decreased from 7.8% in 1997 to 6.8% in 1998 (Senegal: Economic and Financial Policy Framework Paper 1999-2001). However, after more than twenty years of

economic reforms, the objectives of fixing the economy were not fully reached. These failures were due to the fact that the government still intrudes in the economy, and to the fact that the confidence of Senegalese people in economic reforms has never been fully tested in political campaigns. Another failure is related to unwillingness of the World Bank and the IMF to negotiate firmly with government leaders.

As the result of the reform process, the informal sector grew and refused to be marginalized. Without trying to regulate its activities, the Senegalese government must create the conditions for enterprises in the informal sector to develop normally. Thus, the reform process must be fully implemented by deregulating the economy. All roadblocks such as non-tariff barriers, increased customs taxes, regulation of finance markets, and so on must be eliminated to create a free economy that would allow the informal sector to grow.

As for the military, the economic reforms decreased the budget and the number of military personnel. Moreover, soldiers have been affected as consumers by having to face the daily economic crisis of inflation and a decrease in their spending power. The military budget cuts also decreased military materiel maintenance and the soldier's personal equipment. This situation undermined the efficiency of the military in fighting against the Casamance rebellion.

## APPENDIX A. OFFICES AND DOCUMENTS REQUESTED OR DELIVERED FOR IMPORTATION OR EXPORTATION OPERATIONS

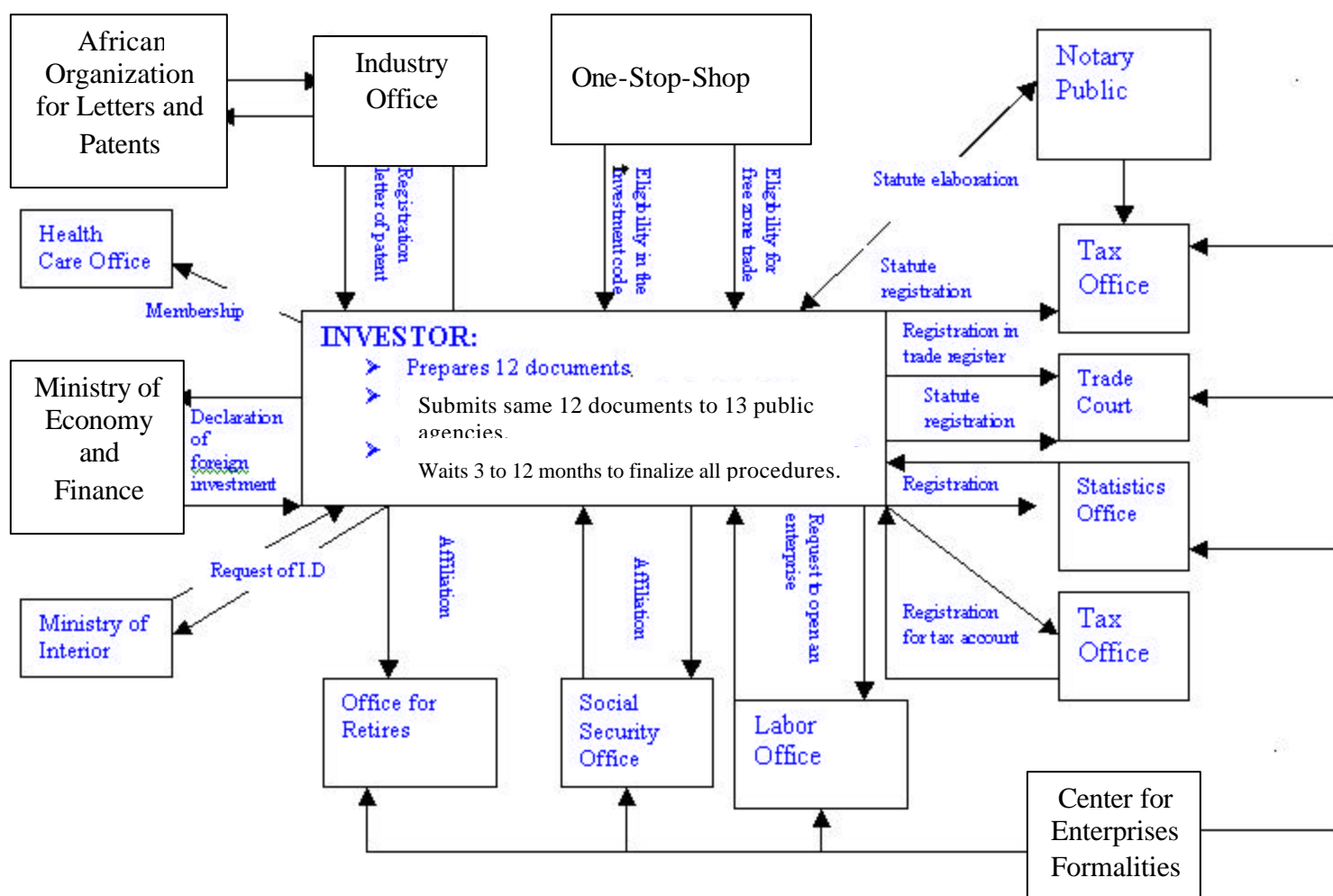
OFFICES	DOCUMENTS
Protection of the Vegetation	<ul style="list-style-type: none"> <li>• Prior Authorizations for Import of Pesticide</li> <li>• Sanitary Certificate of Goods Imported</li> <li>• Report of Sanitary Check on Imported Goods</li> </ul>
Veterinary	<ul style="list-style-type: none"> <li>• Veterinary Certificate for Animal Products to be Consumed or Used by the Industry</li> <li>• Veterinary Certificate for any Kind of Animal Imported</li> </ul>
Oceanography & Fishing	<ul style="list-style-type: none"> <li>• Sanitary Certificate for Sea Products from Europe &amp; Africa</li> <li>• Certificate of No Radioactivity</li> </ul>
Quality of Products	<ul style="list-style-type: none"> <li>• Certificate for the Quality of Products Imported</li> </ul>
Metrology	<ul style="list-style-type: none"> <li>• Attestation of Declaration of Measurement Instruments</li> </ul>
Foreign Trade	<ul style="list-style-type: none"> <li>• Certificate of Origin of the Product Imported</li> <li>• Certificate of Quality of the Product</li> </ul>

From: Trade Point. Report on “ORBUS 2000”

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## APPENDIX B. THE PATH TO SET UP A FORMAL ENTERPRISE



From: Foreign Investment Adviser Service (FIAS). Report on Senegal: Le Parcours de L'Investisseur (Investor's Path). March 1999.

Each arrow indicates a contact that an investor has with a given office. The shows that an investor can have more than one contact with a given office for the same request or for a different request in order to be qualified.

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## APPENDIX C. SENEGAL: SUMMARY AND TIMETABLE OF MACROECONOMIC AND STRUCTURAL ADJUSTMENT MEASURES, 1998-2000

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
A. Fiscal Policies	Maintain fiscal stability and increase public savings.	Consolidate revenue mobilization and expenditure rationalization efforts.	1998 to 2000	
		Achieve fiscal savings of around 6.5% of GDP in 2000.	1998 to 2000	
1. Revenue	Continue reform of the tax system to expand the tax base and improve its yield.	Introduce an external tariff consistent with WAEMU's common external tariff policy objectives.	1998 to 2000	IMF and World Bank
		Introduce a four-tier tariff structure, exclusive of a customs stamp (0, 5, 10 and 25%)	April 1998	
		Adopt a common WAEMU classification for imported products, with four rates.	July 1998	
		Define the terms of application of the surtaxes, in accordance with the decisions taken within the WAEMU.	July 1998	
		Reform petroleum taxation (see section F below)	April 1998	
		Align the rates of the VAT collected at the border to the rates set out in the Tax Code.	April 1998	
		Strengthen the monitoring of large taxpayers.	1998	
		Complete computerization of the VAT administration.	1998	
		Expand the use of the	1998	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
		single taxpayer identification number system		
		Closely monitor conditional tax-exempt arrangements (bonded warehouses, temporary admissions, export processing enterprises, industrial free zones).	1998 to 2000	
		Prepare a study on the possible adoption of a single VAT rate.	July 1998	
		Eliminate the exemptions to customs duties and VAT collected by Customs.	1998 to 1999	
		Prepare measures to simplify the taxation of small enterprises and better tax the informal sector.	1998 to 1999	
		Continue implementation of the import inspection program (PVI).	1998 to 1999	
		Connect the valuation database of the Société Générale de Surveillance (SGS) and the GAINDE system; improve the efficiency of the GAINDE system.	1998	
		Revise the investment incentive systems together with WAEMU member countries and adopt a regional investment code.	1998 to 2000	
		Eliminate the exceptional fiscal arrangements granted certain enterprises in the modern sector.	1998 to 1999	
2. Current Expenditure	Pursue a policy of controlling current	Limit the number of civil servants to 67,000, excluding	1998 to 2000	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
	expenditure by improving its structure.	volunteers and contractual teachers. Implement the new merit-based salary adjustment system.	July 1998	
		Assess medium-term budgetary needs of the Ministries of National Education, Health, and Justice based on the objectives assigned to them.	1998	
		Complete the institutional and actuarial study of the National Pension Fund (FNR).	By end of 1998	ILO
		Implement the institutional reform of the FNR.	1999 to 2000	ILO
		Increase the share of expenditure allocated to the priority social sectors.	1998 to 2000	
		Prepare a report on the outline of the government's new budget programming approach and action plan to improve preparation of the investment budget.	End of July 1998	
		Strictly limit transfers and subsidies to public enterprises to the amounts specified in the budget; no longer grant subsidies to state-owned or semipublic companies.	1998 to 2000	
		Avoid any accumulation of extra budgetary arrears by stepping up control of expenditure commitment at the level of the single authorizing unit (Ministry of Economy, Finance and Planning).	1998 to 2000	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
		Conduct annual public expenditure review.	1998 to 2000	World Bank
3. Capital Expenditure	Prioritize public investments; improve the effectiveness of government capital expenditure.	Implement the recommendations of the public expenditure review conducted in 1997 with the assistance of the World Bank. Increase the share of priority projects, especially those devoted to infrastructure, human resource development, and poverty alleviation.	January 1999  1998 to 2000	
		Strengthen the evaluation, programming, and monitoring of investment.	1998 to 2000	
		Closely monitor quarterly performance indicators for the execution of the public investment program.	1998 to 2000	
		Submit the three-year rolling public investment program (PTIP) (1999-2001) to the World Bank for review.	September 1998	World Bank
		Adopt the 1999 to 2001 PTIP.	Dec. 1998	
		Ensure that recurrent project costs are taken into account.	1998 to 2000	
4. Civil Service Reform	Strengthen the personnel management and control system through greater control of staffing levels.	Update, computerize and standardize the three files (payroll, civil service, technical ministries) and make them consistent with the staffing plans of the various ministries. Distribute procedures manuals.	1998  1998	World Bank
	Strengthen the personnel	Update, computerize and standardize the	1998	World Bank

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
	management and control system through greater control of staffing levels.	three files (payroll, civil service, technical ministries) and make them consistent with the staffing plans of the various ministries. Distribute procedures manuals.	1998	
	Improve effectiveness of public services.	Conduct a users' survey on the quality of public services.	April 1998	World Bank and UNDP
		Organize a national debate on the quality of public services.	July 1998	
		Complete the transfer of responsibilities in the context of decentralization.	1998 to 2000	
		Have the new government procurement code adopted.	July 1998	
		Prepare the national plan for good governance (PNBG) in regard to local and central governments.	1998 to 99	World Bank and UNDP
5. Urban Development and Support for Communes.	Facilitate Senegal's growing urbanization and encourage the participation of local governments in the financing of infrastructure and basic social services.	Conduct audits of communes to define a priority investment program.	1998 to 2002	World Bank
		Conduct organizational and financial audits to define municipal adjustment programs.	1998 to 2002	
		Ensure that the Municipal Development Agency is operational.	1998 to 2002	
		Promote the reform of local taxation.	1998 to 2002	
B. Public Debt	Reduce debt service to a sustainable level.	Limit new concessional loans to those entailing a grant element of at least 35%.	1998 to 2000	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		Make all government and government-guaranteed borrowing subject to prior authorization by the Ministry of Economy, Finance and Planning.	1998 to 2000	
		Increase the staff of the unit responsible for managing the external debt.	1998	
		Set up a system for monitoring domestic public debt.	June 1998	
		Clear any existing external payments arrears and avoid accumulation of new arrears	1998 to 2000	
C. Public Enterprises	Reduce the size of the public enterprise sector and enhance its efficiency.	Complete execution of the public enterprise-restructuring program by 2000 with a view to reducing the government's holdings to less than 25%, with the exception of a few enterprises (asset holding companies, training and promotion companies, and strategic enterprises such as SONATEL and SENELEC).		
		Complete the privatization of SSPT, SPHU-TERANGA and SONADIS.	By end of March 1998	
		Complete the privatization of DAKAR MARINE.	By end of July 1998	
		Privatize SOTRAC, SICAP, the Méridien-Président hotel and 4 small enterprises (SODIDA, MSAD, HAMO and SONEPI).	By end of December 1998	
		Privatize SENELEC: launching of bids.	August 1998	



<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
		Adopt a new strategy for the privatization of SONACOS (see G below).	July 1998	
		Strengthen the unit in charge of managing the government portfolio.	1998 to 99	World Bank
		Annually update the statement of government portfolio holdings.	1998 to 2000	
		Present a report on the economic and financial results in 1996 of the 37 enterprises in which the government has a majority holding.	End of July 1998	
D. Monetary and Credit Policy and Financial Market Development	Design a credit policy consistent with the targets for regional growth, inflation, and external assets.	Implement a prudent monetary policy, essentially using indirect instruments. Develop the secondary markets in treasury bills and central bank paper.	1998 to 2000	
			1998 to 2000	
		Limit access of government to bank financing.	Continuous	
	Enhance the soundness of the banking system and improve financial intermediation.	Submit a law to the National Assembly amending the system for determining usury rates.	December 1998	
		Continue implementation of programs to strengthen the payments system.	1998 to 2000	
		Continue to enforce the prudential ratios established by the regional banking commission strictly.	1998 to 2000	
		Implement the recommendations of bank audits in progress.	1998 to 2000	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		Promote medium-term financing and access to technical assistance for small and medium-sized companies.	1998 to 2000	IFC
		Analyze the conclusions of the rural credit studies conducted in 1997 with a view to their implementation.	1998	
		Strengthen the unit at the Ministry of Economy, Finance and Planning responsible for supervisory mutual savings and loan associations.	1998	
		Improve functioning of commercial courts and procedures to liquidate collateral for bank loans.	1998	
	Promote private equity and develop the securities markets.	Encourage the development and diversification of institutions and instruments for financing investments (especially leasing and venture capital).	December 1998	
		Implement the text s regulating the regional financial market and the Securities Commission (Conseil Régional).	1998	
		Begin offering shares in partially privatized enterprises via the regional stock exchange.	1998	
E. Regulatory and Judicial Framework for Economic Activities	Promote private sector activity and reduce distortions.	Continue liberalization of domestic and foreign trade and of the pricing system. Promote respect of the rules of competition.	1998 to 2000  1998 to 2000	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
	Improve the legal environment and the performance of the judicial system.	Undertake an assessment of the results of measures taken in the context of PASCO. Implement the uniform OHADA instruments.	December 1998  As of 1998	World Bank
		Have the National Assembly adopt new measures regarding arbitration, enterprises in difficulty and paralegals.	Next session of the National Assembly	
		Train magistrates in commercial law.	1998 to 2000	
		Increase budgetary appropriations allocated to the administration of justice.	1998 to 2000	
	Reduce restrictions on international financial transactions.	Study options for the gradual liberalization of capital flows. Develop a plan to improve institutional support and streamline administrative processes for exporters.	December 1998  1998	World Bank
F. Energy Policy	Eliminate all energy sector monopolies or rigid oligopolies (trade in fuel wood, petroleum products, and electric power generation and distribution)	Liberalize the import, transportation, and distribution of petroleum products (including third-party access to import, storage, and transport facilities). Abolish the US\$ 2.3 SAR supplement per barrel and replace the special agreement for the SAR by a temporary, declining surtax on imports of refined products.	April 1998  April 1998	World Bank  1998 to 2002
		Adopt a tariff structure, which entails a twenty	April 1998	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
		percent age-point differential between white products and crude oil and 5 points on black products.		
		Adjust this structure downward in line with the WAEMU tariff convergence program and reduce the differential to fifteen percent age points for white products.	January 1, 2000	
		Eliminate the implicit subsidies on black products sold for electricity generation over three years (1998-2001); on butane over four years (1998-2002).	1998 to 2002	
		Replace the variable stabilization levy with a specific tax on white products.	April 1998	
		Adopt a new price structure for petroleum products with automatic adjustment (quarterly, then monthly) of domestic sale prices.	April 1998	
		Continue to execute privatization plan for SENELEC.	1998 to 1999	
		Adopt of the law restructuring and regulating electricity sector, entailing private sector participation.	April 1998	
		Transfer of legal ownership of Senegal's electricity transport and distribution infrastructure from the State to SENELEC.	April 1998	
		Launching of bids for privatization of SENELEC	August 1998	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		Transfer of SENELEC's holdings and management oversight to strategic partner.	End 1998	
		Sell of shares to SENELEC workers and other private sector operators; reduction of state ownership to no more than 41%.	Before April 1999	
		Liberalize charcoal and wood fuel prices.	End-1999	
		Implement the provisions of the new forestry Code.	1998 to 2000	
G. Agricultural and Fisheries Policy	Ensure food security by means of diversified and competitive local production.	Finalization of an operational strategy document Provide support and advice to farmers Strengthen agricultural research and extension services; Enhance the role of producer organizations in the development of the agricultural sector; Implement a viable rural credit system.	June 1998  1998  1998 to 2000  1998 to 1999	
		Revise the land tenure legal context to ensure greater security of private investment in agriculture.	1998	
		Modernize techniques, tools and means of action of the agricultural sector; restore soil fertility; restructure the fertilizer sub sector; improve access to quality seed varieties.	1998 to 2000	
		Finalize a priority investment program for the agricultural sector based on the agricultural	December 1998	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
		development policy letter (LPDA) and the recommendations of the strategic orientation paper.		
	Water	Conduct an assessment of water needs.	March 1998	
		Consolidate the operations of the Program for the Development of the Left Bank of the Senegal River (PDRG).	1998	
		Implement water-saving programs in irrigated areas.	1998 to 2000	
		Establish the Higher Council on Water and the Water Technical Committee.	1998	
	Groundnut sector	Privatize SONACOS: Define a strategy; Select a reference partner.	June 1998 December 1998	
	Cotton sector	Maintain the free determination of the sale price of fiber to local textile mills.	1998 to 2000	
		Implement the plan to rehabilitate/ privatize SODEFITEX.	1998	
	Horticulture	Streamline administrative procedures for exports.	1998	World Bank
		Introduce a system of standardization of fruit and vegetable quality.	1998	
	Livestock	Pursue privatization of SODESP and veterinary medicine.	1998 to 99	
		Pursue the development of animal production.	1998 to 2000	
		Promote exports from the leather and skins sub sector.	1998 to 2000	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
	Fisheries	Finalize the fisheries development master plan.	June 1998	
		Ensure that the new fishing code for the conservation and rational use of fish resources is adopted.	December 1998	
		Complete the privatization of fishing equipment.	1998 to 2000	
H. Other Sectoral Policies	Transportation	Develop transnational transportation infrastructure to open Senegal up from its land-locked position within the WAEMU (roads, railroads, ports, airports).	1998 to 2000	
		Improve the competitiveness of the Port of Dakar (keep personnel costs below 30% of operating costs and billing periods to a maximum of three months).	1998 to 2000	World Bank
		Privatization of the management of Senegal's airports: -Launching of studies; -Adopt of legislative framework; -Implementation	April 1998 June 1999 January 2000	
		Restructure Air-Senegal: Develop a business plan for Air Senegal Privatize the company.	September 1998 December 1999	World Bank
		Restructure the Dakar-Bamako international rail line: Adopt a legal and regulatory framework for the private	October 1998	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		operation of the Dakar Bamako international rail line; Create a joint Senegalese-Malian private management company for the Dakar Bamako international rail line (SETI); Start up SETI.	December 1998  April 1999	
		Design a program for improved management of rural roads and government funding	1998	
		Reform the legal and operational framework of urban transportation for its complete liberalization.	1998 to 2000	
	Mining sector.	Adopt the revised Mining Code.	December 1998	
		Update and modernize the geological and cartographic database.	1998	
I. Human Resources Development				
1. Health	Ensure better access to quality health care. Improve the management and viability of the public health system. Reduce the fertility rate.	Increase the share of current government expenditure on health care by at least 0.5% per year to reach the WHO standard of 9% by 2002. Sign the decree reorganizing the Ministry of Health and Social Action.	1998 to 2002  March 1998	World Bank
		Implement a recruitment plan for the Ministry of Health and Social Action with a target of recruiting 250 staff per year (all categories combined).	1998 to 2000	
		Reduce the number of inhabitants per health center from about 158,000 in 1997 to	1998 to 2000	



Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		150,000 by 2000.		
		Reduce the number of inhabitants per health post from around 11,000 in 1997 to 10,000 in 2000	1998 to 2000	
		Reduce deaths in childbirth by 25%, from 510 per 100,000 births in 1997 to 380 per 100,000 births in 2002.	1998 to 2002	
		Begin research into the conditions for a sustainable solid financial footing for hospitals.	March 1998	
		Change the status of the "Pharmacie Nationale d'Approvisionnement" (PNA), to provide more management autonomy.	June 1998	
		Increase immunization coverage from 60% in 1997 to 80% by 2002.	1998 to 2002	
		Reduce the fertility index from 5.9 in 1997 to 5.3 in 2000.	1998 to 2000	
		Promote the distribution and use of generic drugs.	1998 to 2000	
		Encourage the rehabilitation of laboratories and the establishment of drug manufacturing facilities by the private sector.	1998 to 2000	
		Reform the statutory and regulatory framework of mutual health insurance organizations.	1998 to 2000	
		Rehabilitate private sector health insurance companies.	1998 to 2000	
2. Population	Control	Continue to implement	1998 to 2000	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
Policy	population Growth (increase the contraception Prevalence rate from 9% in 1997 to 16% in 2002).	the program of priority actions related to population.  Step up support to local governments for population control.  Conclude the action program aimed at lowering the fertility rate.	1998 to 2000  1998	
3. Education	Improve the availability, effectiveness and quality of education by: Increasing the gross primary enrollment ratio from 59.7% in 1997 to 70% by 2000	Promote continued improvement in the quality of primary education and increase enrollment rates in rural areas, especially among girls. Gradually increase the share of current expenditure devoted to primary education.	1998 to 2000  1998 to 2000	World Bank
	Increase the enrollment rate for girls from 53% in 1997 to 60% by 2000;	Build and equip about 1,500 primary classrooms annually and complete the ongoing classroom rehabilitation program. Annually recruit 1,500 primary school teachers.	1998 to 2000  1998 to 2000	
	Reduce repetition rates in grades 5 and 6 from 14% and 28%, respectively, in 1997 to 10% and 18% by 2000.	Implement new regulations for primary school teacher training, recruitment, salaries, and career plans conducive to primary education for all.  Rationalize higher education based on the conclusions of the PAES by gradually reducing its share in the education budget to 20.3% by 2000.	1998 to 2000  1998 to 2000	
		Involve students and businesses in financing the costs of vocational training.	1998 to 2000	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
	Eliminate adult illiteracy.	Increase the number of beneficiaries of literacy programs by 20,000 a year (75% women) between 1997 and 2000.	1998 to 2000	
4. Role of Women	Enhance the integration of women into political, economic, and social life	Implement a national plan for women and start implementation. Reduce the rate of female illiteracy by developing functional literacy.	1998 to 2000  1998 to 2000	World Bank
5. Reduction of Poverty	Improve the living conditions of the poorest social groups.	Intensify the coordinated measures to help the most-disadvantaged social groups in accordance with the national poverty alleviation program adopted in December 1997.	1998 to 2000	World Bank
		Increase the income of the poorest segments of the population by: -developing strategies for promoting micro- and small-scale enterprises (MPE); -supporting the creation and development of MPEs; -strengthening the regulatory and financial environment of MPEs.	1998  1998 to 1999  1999	
		Improve living conditions by: -devising development plans for poor urban neighborhoods and rural communes; -implementing these plans; -developing the intervention and management capacities of urban and rural grass-roots organizations, and	1998  1998 to 1999	

Policy Area	Objectives and Targets	Strategies and Measures	Timetable	Technical Assistance
		departments, regions and municipalities.		
		Implement the local nutrition program.	1998 to 2000	
		Accelerate and expand labor-intensive projects, especially in the infrastructure sector.	1998 to 2000	
J. Environment	Maintain environmental resources and environmental quality with a view to sustaining long-term economic growth.	Have the government adopt the national environmental action plan (PNAE) and prepare an environmental management program to implement its recommendations. Improve environmental protection by establishing a framework for environmental impact studies.	Early 1998  1998	
		Conduct environmental impact studies for all large investment projects.	1998 to 2000	
		Strengthen local-level capacity to manage the environment and natural resources through the establishment of a national environment foundation and through environmental education.	1998 to 1999	
		Monitor the status of environmental resources by establishing environmental information system.	1998 to 1999	
	Rehabilitate destroyed habitats, such as the Bay of Hann.	Formulate and implement a coastal resources management program.	1998 to 1999	

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timetable</b>	<b>Technical Assistance</b>
	and preserve Senegal's biodiversity.	Establish a system to facilitate solid waste management by local governments.	1998 to 2000	
K. Statistical Issues	Improve the formulation and analysis of economic policy.	Increase the resources set aside for the compilation of statistics, especially with regard to national accounts, foreign trade, and social indicators; continue to implement recommendations made in conjunction with past technical assistance; regularly publish available data.	1998 to 2000	

From: Senegal-Enhanced Structural Adjustment Facility Policy Framework Paper, 1998-2000

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**APPENDIX D. MACROECONOMIC INDICATORS FOR SENEGAL,  
1981-1990 (BILLIONS OF CURRENT CFA FRANCS)**

<b>Indicators</b>	<b>1981</b>	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>
Gross Domestic Product	674	849	945	1,022	1,151	1,304	1,382	1,483	1,478	1,590
Primary Sector	120	184	203	173	217	291	300	333	282	327
Secondary Sector	107	127	146	174	205	228	247	273	272	292
Tertiary Sector	447	537	595	674	736	785	836	877	921	971
Resource Balance	-130	-104	-116	-97	-130	-71	-78	-75	-78	-64
Imports (1)	347	395	427	484	474	416	423	448	474	474
Exports (1)	216	291	311	387	344	346	346	373	396	410
Net Official Transfers	48	60	60	61	60	61	64	61	72	75
Fiscal Balance (2)	-70	-77	-78	-54	-50	-47	-60	-64	-70	-8
Expenditures	222	253	270	258	269	298	311	310	330	309
Revenues	152	176	189	204	219	251	251	246	260	301

Indicators	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
As Percentage of Gross Domestic Product										
Gross Domestic Investment	11.9	11.3	11.9	11.7	9.8	11	11.7	12.5	10.8	12.7
Fiscal Balance (3)	-9.3	-8.7	-7.9	-5.0	-4.1	-3.5	-4.2	-4.4	-4.6	-0.5
Resource Balance	19.3	-12.3	-12.3	-9.5	-11.2	-5.4	-5.6	-5.0	-5.3	-4.0
Imports (2)	51.4	46.5	45.2	47.4	40.9	31.9	30.6	30.2	32.1	29.8
Exports (2)	32.1	34.2	32.9	37.9	29.7	26.5	25	25.2	26.8	25.8
Inflation Rate										
European Current Price Index	11.3	12.5	9.4	8.5	8	6.2	-2.2	-0.4	0.1	4.7
African Current Price Index	5.9	17.4	11.6	11.8	13.1	6.1	-4.1	-1.8	0.4	0.3
Exchange Rate (CFA francs per \$US) (4)	272	329	381	437	449	346	301	298	319	272
Notes: Errors are due to rounding.										
1. Trade figures include goods and non-factor services.										
2. On cash basis, before debt rescheduling. Dates refer to fiscal (for example, 1981 refers to fiscal year 1981 to 1982.										
3. Annual average										
4. Provisional estimate										

From: Estimates of the World Bank Staff; World Bank 1989a, 1989b; International Monetary Fund, Various Years



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